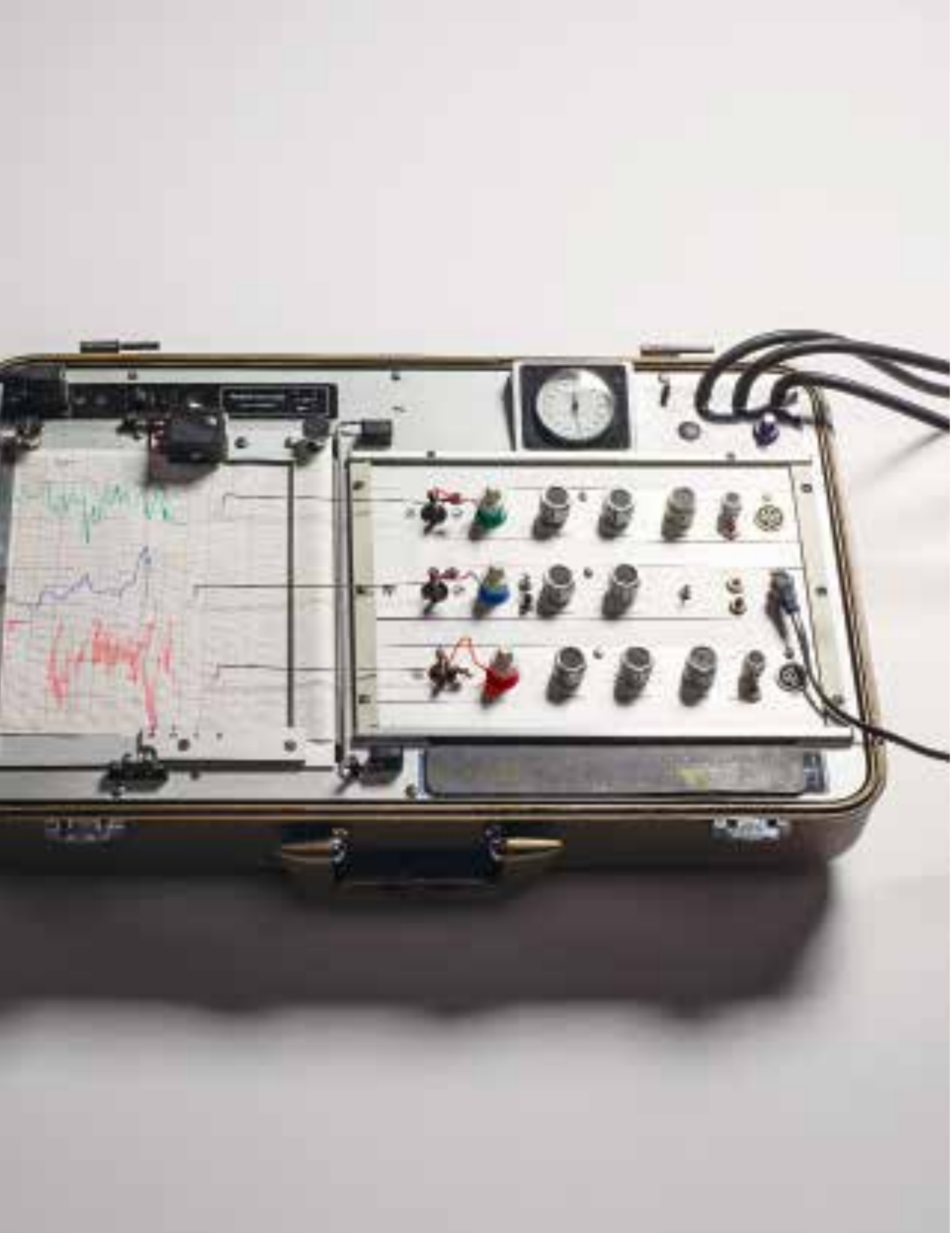
THE TRUTH ABOUT CAR INSURANCE

The way insurers set prices is shrouded in secrecy and rife with inequities. We studied more than 2 billion price quotes to understand the factors that raise rates. Here's what you can do to keep yours low.

PHOTOGRAPHS BY CHRIS BUCK



You know Flo. She's the white-aproned pitchwoman with the goofy charm who says that you can save more than $500 by switching to Progressive car insurance. Or you might get other discounts by bundling your insurance together or by naming your own price to fit your budget.

You might reasonably conclude from the ads that you're in for some pretty sweet savings. But Consumer Reports compared what five national insurers would charge sample adult drivers in states where they are all market leaders. And we found that Progressive was actually the second most expensive, on average, with an annual premium that was $597 higher than the lowest, from USAA.

Say it ain't so, Flo!

Progressive is hardly alone in making savings claims that might not be as compelling as they sound. In fact, the rakish reptile in the Geico ads is so familiar that people can easily recite his "15 minutes could save you 15 percent" slogan.

"The advertising creates the impression of price competition when there actually isn't any," says Doug Heller, a consumer advocate and an insurance consultant in California.

Indeed, the prevalence of slick car insurance commercials masks broader, more troublesome industry practices that result in little transparency and not enough fairness in how insurers price policies. As a result, it's difficult for consumers to tell a good deal from a bad one. And in the absence of reliable, independent information, all that consumers have to go on is marketing hype.

Consumer Reports believes that knowledge about the going rate for any product or service is a fundamental consumer right. That's why we embarked on a comprehensive project spanning two years, in which we analyzed more than 2 billion car insurance price quotes from more than 700 companies with the greatest share of customers in all 33,419 general U.S. ZIP codes. (See "How Our Analysis Was Done" on the facing page.)

What we found is that behind the rate quotes is a pricing process that judges you less on driving habits and increasingly on socioeconomic factors. These include your credit history, whether you use department-store or bank credit cards, and even your TV provider. Those measures are then used in confidential and often confounding scoring algorithms. And thanks to the availability of Big Data, companies have a lot more information to dig into.

You're legally obligated to buy car insurance if you want to drive (except in New Hampshire), yet the business thrives on withholding critical information from customers. "Pricing transparency is one of the most powerful money-saving tools consumers can have when it comes to car insurance," says Norma Garcia, senior attorney and manager of the financial services program at Consumers Union, the advocacy arm of Consumer Reports, which has fought for car insurance protections since the 1980s.

The industry is regulated at the state level, which is why pricing is literally all over the map. "That means bringing the fight to the state insurance regulators and lawmakers," Garcia says. Some states tried to keep the marketplace fair by requiring insurers to file their pricing formulas with regulators, who would then ensure that prices weren't excessive or discriminatory.

But over the past 15 years, insurers have made pricing considerably more complicated and confusing. As a result, "there is a complete lack of transparency," says Birny Birnbaum, executive director of the Center for Economic Justice in Texas. Those new scoring models–though hidden from the public–are available to regulators on the condition they remain confidential. But because they're so complex, "the regulators don't have a prayer of being able to monitor them deeply," Birnbaum says.

It's about time we got a better deal from the car insurance industry. Our investigation illuminates some of the worst practices by demonstrating the real cost to consumers in dollars and cents. We also highlight the companies that are offering fair deals, and we help you steer clear of insurers whose numbers just don't add up. But most important, we want you to join forces with us to demand that insurers–and the regulators charged with watching them on our behalf–adopt price-setting practices that are more meaningfully tethered to how you drive, not to who they think you are. Look for information about how to work with us on page 37.

THE HIDDEN TRUTH

Your credit score—more than your driving habits—can determine your premium.

Your score is used to measure your creditworthiness–the likelihood that you'll pay back a loan or credit-card debt. But you might not know that car insurers are also rifling through your credit files to do something completely different: to predict the odds that you'll file a claim. And if they think that your credit isn't up to their highest standard, they will charge you more, even if you have never had an accident, our price data show.

PROP STYLING: LINDA KEIL FOR HALLEY RESOURCES

Cherry-picking about 30 of almost 130 elements in a credit report, each insurer creates a proprietary score that's very different from the FICO score you might be familiar with, so that one can't be used to guess the other reliably.

The increase in your premium can be significant. Our single drivers who had merely good scores paid $68 to $526 more per year, on average, than similar drivers with the best scores, depending on the state they called home.

And your credit score could have more of an impact on your premium price than any other factor. For our single drivers in Kansas, for instance, one moving violation would increase their premium by $122 per year, on average. But a score that was considered just good would boost it by $233, even if they had a flawless driving record. A poor credit score could add $1,301 to their premium, on average.

Because insurance companies are under no obligation to tell you what score they have cooked up for you, you have no idea whether you have a halo over your head or a bull's-eye on your back for a price increase.

Car insurers didn't use credit scores until the mid 1990s. That's when several of them, working with the company that created the FICO score, started testing the theory that the scores might help to predict claim losses. They kept what they were doing hush-hush. By 2006, almost every insurer was using credit scores to set prices. But two-thirds of consumers surveyed by the Government Accountability Office at about the same time said they had no idea that their credit could affect what they paid for insurance. Even today, insurers don't advertise that fact. They usually won't tell you what your score is; they don't have to. If a sudden drop in your score causes them to raise your rates or cancel your policy, you'll receive a so-called adverse action notice. But those notices "provide only cryptic information that's of limited use," Garcia says.

California, Hawaii, and Massachusetts are the only states that prohibit insurers from using credit scores to set prices. In those states, insurers base premiums largely on a consumer's driving record, the number of miles driven per year, and other factors. According to a 50-state study of insurance regulations by the Consumer Federation of America in 2013, California's pricing practices, enacted as part of Proposition 103 in 1988, saved $8,625 per family during those 25 years.

Car insurance is regulated at the state level, which is one reason pricing is literally all over the map.

THE HIDDEN TRUTH

Insurers profit from accidents you might never have.

You buy car insurance so that you're protected financially in the event of a car crash. But an unfair side effect of allowing credit scores to be used to set premium prices is that it effectively forces customers to dig deeper into their pockets to pay for accidents that haven't happened and may never happen.

How Our Analysis Was Done

AT THE START of our car insurance pricing project, we engaged Quadrant Information Services, a private company that collects the mathematical pricing formulas that insurers must file in almost every state. We then created a cross-section of hypothetical policyholders. There were 20 in all, ranging in age from 16 through 75, men, women, some married, some with a teenage driver.

The policyholders were assigned the same "base" profile, including a perfect driving record and excellent credit. They bought standard liability coverage: a limit of $100,000 for bodily injury (BI) per person, $300,000 for BI per accident, and $100,000 for property damage. They also bought uninsured/underinsured motorist protection for the same amounts, and collision, comprehensive, and Med Pay or personal injury protection.

We put our drivers in popular vehicles, in most cases the Toyota Camry LE (when the policy covered only one vehicle) and a Honda Accord LX for the second car for two-vehicle policies.

Using Quadrant's data, we got quotes for our sample drivers in August and November 2014 from up to 19 car insurers in each state, for all 33,419 general ZIP codes. That included quotes from Amica and USAA, two companies that since the 1990s have consistently rated high for claim satisfaction with our subscribers, plus the largest insurers operating in each state, which usually included Allstate, Geico, Progressive, and State Farm. For companies that had subsidiaries (for example, Allstate Indemnity and Allstate F&C), we used whichever company had the largest in-state market share for most analyses.

Then we changed each of the ratings factors of our "base" sample drivers to see how the annual premium would change. For example, we calculated what would happen if the driver had one at-fault accident, or a good credit score instead of an excellent score.

Under the state laws that regulate automobile insurance, carriers are required to adhere to the prices generated by their public rate filings. So the premiums we obtained from Quadrant are what each company legally obligates itself to charge consumers. In other words, our prices are the insurers' actual prices for the driver profiles we created and the companies we list.

DOING THE MATH
We collected data from all ZIP codes in the nation.

PHOTOS: GETTY IMAGES

The High Cost of Poor Credit

Rates shown are the average premium for adult single drivers with a clean driving record with poor, good, or excellent credit. We compare these to the average premium for a driver with excellent credit and a drunk-driving conviction (bottom bubble). Here's how the numbers play out in Florida, for example.

For an analysis of all 50 states and Washington, D.C., go to Consumer Reports.org/FixCarInsurance.

Which Insurers Charge More or Less?*

Brand	Average Annual Premium
Allstate	$1,570
Progressive	$1,414
Geico	$1,177
State Farm	$1,147
USAA	$817

*New-customer rate for male and female single drivers ages 25, 35, 65, and 75 with excellent credit and a clean driving record in AK, AL, AR, AZ, CO, CT, DE, FL, GA, HI, KY, LA, ME, NH, NM, NV, NY, SC, TN, TX, UT, VA, WA, the states where all five companies are market leaders.

For example, our single New Yorkers with good credit scores and clean driving records would pay an average of $255 more in annual premiums than if they had excellent credit scores. In California, those same drivers wouldn't have to pay a penalty for having only "good" credit.

In the states where insurance companies don't use credit information, the price of car insurance is based mainly on how people actually drive and other factors, not some future risk that a credit score "predicts."

That pricing dynamic also artificially reduces the true sting of careless driving in states like New York. If you have an accident, your premium takes less of a hit because you have already paid for the losses that your merely "good" score predicted you would have. In California, the $1,188 higher average premium our single drivers had to pay because of an accident they caused is a memorable warning to drive more carefully. And the more carefully people drive, the safer the roads are for everyone. In New York, our singles received less of a slap, only $429, on average.

THE HIDDEN TRUTH

You'll be charged more if Big Data says you won't notice.

In yet another bid to maximize profits, some insurance companies have begun in the past few years to use a new technique to determine your sensitivity to prices. That way, they can base your premiums not just on your risk profile or credit score but also on the amount you're willing to tolerate. Called price optimization, the practice—which isn't allowed in California, Florida, Maryland, Ohio, Vermont, and Washington for car insurance—uses data about you and statistical models to gauge how likely you are to shop around for a better price. Will you put up with a $100 increase? Yes? How about $200?

What kind of data is in that crystal ball? Two factors are whether you have complained about your policy, and how much of an increase you accepted when you renewed your policy in the past. So don't be shy about complaining a little more.

But according to Bob Hunter, director of insurance for the Consumer Federation of America, who has studied price optimization and was the first to bring it to the attention of regulators, those models can also take into account measures that seem to be unrelated to car insurance. They include the number of iPhones and beers you have purchased, or whether you're sticking with Verizon FiOS when DirectTV might be cheaper. "Price optimization is used to produce unfairly discriminatory rates, which are illegal in every state," says Hunter, who was also a consultant on this project.

But price optimization is legal, counters Robert Hartwig, president of the Insurance Information Institute, an industry group. "The six states that have prohibited it have done so without evidence of detriment to the market," he says.

Regulators, however, seem to see things more Hunter's way. "Insurers can't use a rate factor that charges one guy $20 more because he's less likely to leave after a price increase than another guy who has the same risk," says Eric Nordman, director of the National Association of Insurance Commissioners Regulatory Services Division and its Center for Insurance Policy and Research.

Pete Drogan, vice president and chief actuary for Amica, the insurance company, says, "We base price purely on risk," adding that the company doesn't use price optimization. "That is not the way we conduct the pricing business here at all."

State Farm also says it doesn't use price optimization. "Our goal is to be as accurate as we can to meet the cost of the promise we make," says Dick Luedke, a spokesman for the company. "We do not make any effort to measure how likely it is that someone will pay more than they're paying now."

Representatives from Allstate, Geico, Progressive, and USAA declined to discuss price optimization.

Here's What's Really Funny About Those Advertised Savings

Perhaps insurers think you won't notice their fuzzy math if you're too busy laughing

Are you getting the deal you think you are?

You know the Geico gecko's "15 minutes could save you 15 percent or more on car insurance" tagline so well that you can say it in your sleep. But did you know that the word "could" could also mean "could not" just as easily? When we checked, Geico's state-average premiums could actually save our sample single drivers 30 percent vs. Allstate, and 18 percent compared with Progressive. But Geico's coverage cost 17 percent more than State Farm and 57 percent more than USAA.

Count the balls and see the savings?

Pitchwoman Flo likens the number of bouncy balls—500—to the number of dollars you can save by switching to Progressive. In fact, she says, "you could save even more." Jeff Sibel, a Progressive spokesman, says the calculation was based on a 2014 survey of people who shopped at Progressive online "after cleaning the data for invalid responses ... [and] those who didn't save with Progressive and extreme outliers." So whether a typical shopper would save with Progressive is still an open question.

Are you really better protected?

A windstorm, personified by Allstate's menacing character Mayhem, knocks a huge tree limb onto a car. "Get Allstate," he intones. "You could save some cash and be better protected from Mayhem like me." But the disclaimer that flashes by says: "Potential savings refer to out-of-pocket expenses avoided by selecting insurance that covers the damages shown." In other words, buying Allstate's comprehensive coverage (which protects against vehicle damage caused by acts of nature) saves you more than being uninsured.

THE HIDDEN TRUTH

Adding a teen driver can cost a fortune—but it doesn't have to.

For many parents, adding a teenage driver to the family insurance policy and handing over the car keys is a proud but scary moment. They know too well that teens have the highest crash rate of any age group, and they're concerned about safety. The risk might strike fear in a parent's heart, but so too might the expectation of what's going to happen to their insurance bill. Our analysis found some good news. Adding a teen doesn't have to be exorbitant, although it might mean that you'll need to quit your current insurer and switch to a new one if you want a better price.

Some insurers charged our sample married couple as much as 250 percent more for adding a 16-year-old driver to the family policy; others charged a lot less. On average nationwide, the impact was a 90 percent premium increase. Hawaii had the lowest average increase (16 percent), and North Carolina had the highest (159 percent). That's an additional $309 to $1,698 per year.

But when we drilled down by state and insurance company, individual savings opportunities emerged. In California, a 55-year-old couple without a child might choose Allstate Indemnity for its $1,762 annual premium, the lowest of the 16 companies we compared in the Golden State. But when they added a 16-year-old son to the policy, the premium jumped 194 percent, to a mammoth $5,182.

Consumers tend to renew their car insurance automatically, so if our couple erroneously assumed that such a price hike was standard, they might simply pay up. But shopping around would save them a bundle. Auto Club would charge the couple with the teen only $2,667 per year, a mere 4 percent more than they had been paying.

How to Fight Unfair Pricing

DURING THE Great Recession of 2007-9, legislators in states across the country became alarmed that the ailing economy's impact on credit scores would jack up their constituents' insurance costs. They scrambled to strengthen "extraordinary life circumstances exceptions" in state laws that allow insurers to set prices based on credit-score information. Partly as a response, 29 states adopted so-called NCOIL (National Conference of Insurance Legislators) provisions. Many of them allow consumers to request that their insurer not use credit scoring against them if they were affected by circumstances beyond their control, such as unemployment, divorce, serious illness, the death of a spouse, and identity theft.

But the provisions are weak. For one thing, "notification of extraordinary life circumstances exceptions is not required under most state laws," says Neil Alldredge, senior vice president of state and policy affairs for the National Associate of Mutual Insurance Companies (NAMIC). And it's not clear whether insurers adequately make consumers aware that those exceptions even exist.

Amica, which has more than 670,000 policies in force, said it receives only one such request per month. State Farm, the nation's largest insurer, told us it can't say how many requests it gets or how many are granted. "But I can tell you those numbers are small," said Dick Luedke, a spokesman. "We are talking, after all, about 'extraordinary' life events." Representatives from NCOIL and NAMIC said their organizations don't keep track.

WHAT YOU CAN DO

- Request an "extraordinary life circumstances exception" if you receive an adverse action. You should get one of those notices if credit scoring causes a higher premium, a reduction in coverage limits, a cancellation or nonrenewal of your policy, or a denial of coverage to begin with.
- Shop at the companies that charged our model drivers with good and/or poor credit scores the lowest premiums, listed on ConsumerReports.org.
- Monitor your credit reports to make sure they're accurate, and ask to be rescored if you've found and corrected errors in your file. That's important, because the information that determines your insurance credit score is plucked from them. Get your free yearly report from all three credit bureaus at annualcreditreport.com.
- Avoid certain types of credit that insurance company credit-scoring models penalize you for: department-store credit cards, instant credit offered by stores to move big-ticket items; credit accounts from your local tire dealer, auto-parts store, or service station; and finance-company credit, including retailer credit cards.
- Use credit that insurer scoring models favor: national bank-issued credit cards (AmEx, Discover, MasterCard, and Visa).
- Keep credit-card balances in check; the higher the balance, the more points you lose on your score.
- Try not to add new credit. Scoring systems look askance at those who open new credit accounts frequently, and they can penalize you for just shopping around for credit because credit inquiries appear on your credit report.

THE HIDDEN TRUTH

Promised discounts might not materialize.

Insuring a vehicle is a pricey proposition, and car insurance companies aggressively boast about ways you can save money with them. But our study revealed that some of the discounts that are advertised the most, such as the ones for bundling home and car insurance, or installing anti-theft equipment, saved very little: just $97 per year and $2 per year respectively, on average, nationally. We were also surprised to find that significant savings for student-driver training turned out to be more of a mirage. In fact, the discount was worth very little—a piddling $63 in annual savings for our sample family nationally. The discounts were worth more, however, in Louisiana ($155), California ($334), and Massachusetts ($386).

PROP STYLING: LINDA KEIL FOR HALLEY RESOURCES

Because insurance companies are under no obligation to tell you what secret score they've cooked up for you, you don't know if it puts a halo over your head or a bull's-eye on your back.

More lucrative is the discount of up to 14 percent that insurers make available to families with students under age 25 who can show proof of good academic performance. It won our sample family an average national savings of $263, and was especially high in Minnesota ($471), California ($474), and Louisiana ($688).

It's nice that Johnny does his homework, but like credit scoring, the good-student discount doesn't emphasize factors related to actual driving behavior. And it might reward families with high incomes at the expense of lower-income ones. "According to our research, young drivers are inexperienced no matter how good a student they are, and that is their primary risk," says Ruth Shults, senior epidemiologist at the National Center for Injury Prevention and Control at the Centers for Disease Control and Prevention.

THE HIDDEN TRUTH

Longtime loyalty to a company might work against you.

Many companies, including car insurers, reward their most loyal customers with discounts or other incentives. It's a smart business model. But our study found that while some insurers give a sizable discount, others give a small one, and still others offer nothing at all. Some insurers even salute your allegiance with a price hike.

It's common for consumers to stay with the same insurance company for a long time. Fifty-three percent of Consumer Reports subscribers have stayed put for 15 years or more, according to our most recent survey. But that kind of complacency can cost you. In Washington State, for example, seven of 15 insurers didn't give a discount to our married couples who had been steadfast customers for at least 15 years, including Amica Mutual and Farmers. Trusted name brands were no guarantee of anything: In Washington, State Farm Fire & Casualty offered no discount; State Farm Mutual provided $182, or 15 percent in savings. Geico General and Geico Government Employees didn't offer a discount; Geico Casualty actually charged a $689 loyalty penalty, or 17 percent.

Discounts also varied by state. USAA offered a nice savings of $197 in Kentucky but a meager $14 loyalty discount in Washington, nothing in Colorado and Michigan, and a $28 loyalty penalty in New York.

Geico Casualty gave us whiplash with its $3,267 loyalty penalty in New Jersey and its $888 discount just across the state line in New York for longtime customers. State Farm Mutual consistently provided discounts of a couple of dollars up to a few hundred dollars; Allstate Fire and Casualty and Allstate Property & Casualty tended to prefer penalties.

Unfair at Any Speed

YOU SHARE THE ROAD with an estimated 30 million uninsured drivers, according to the Insurance Research Council. Although every state except New Hampshire mandates that drivers have insurance coverage, some slip through the net of state enforcement by buying coverage to register a car, then letting it lapse.

It's easy to demonize those consumers by assuming that they choose not to buy a product they can easily afford. "There are individuals out there who like to live on the edge" and drive without insurance, says an Allstate Web video.

But insurance credit scoring, which links customers' premium prices to their creditworthiness, raises the cost of insurance for some low-income drivers and might make it unaffordable to them. In fact, research by the Consumer Federation of America found a strong correlation between state poverty rates and the percentage of uninsured drivers in a given state, which ranges from 4 percent in Massachusetts to 26 percent in Oklahoma.

What's worse, our own data show that when the uninsured try to get back on track and buy coverage, insurers tack on an additional price penalty. Our single policyholders who had a 60-day lapse in their coverage got socked with a $207 higher premium on average nationally. The penalty varied by state and ranged from zero in California to

$834 per year in Michigan.

Insurers, however, dismiss the problem and say that insurance is plenty affordable for the poor. "Low-income consumers already spend more on alcohol and tobacco products or audio and visual equipment and service than they pay for auto insurance," says the National Association of Mutual Insurance Companies.

Taxing the poor through credit scoring and by other means not related to driving causes problems for all insured drivers, because painfully high insurance prices tempt financially strapped consumers to drive without insurance. That, in turn, is why we recommend uninsured/underinsured motorist protection, which covers your losses caused by another driver who has insufficient or no car insurance. UI/UIM insurance added $10 to $230 per year to our single drivers' bill, on average, depending on the state.

LEARN

For more information about car insurance pricing, including a state-by-state look at how credit scoring affects premiums and a guide to help you start shopping for the best deal where you live, go to:

ConsumerReports.org/FixCarInsurance

PHOTOS: GETTY IMAGES

Shop Smart for Insurance

CAR INSURANCE is a major expense that you'll pay as long as you own a car, so you should invest time to get the best deal. Premiums vary widely by state and carrier. But generally speaking, you'll spend $9,000 to $14,000 in the next 10 years if you're single to insure one car; $13,000 to $20,800 for two cars if you're married. (Those prices aren't adjusted for inflation.)

Our data provide one of the first independent benchmarks against which you can judge a high price from a fair one, and we show how various factors can raise or lower your premium. But you still need to get customized quotes. Here's how to do that:

1. Dig out a copy of your current policy plus records of any at-fault accident claims and moving violations.
2. Start with the three insurers our study found to be generally lowest in price: Amica, State Farm, and USAA. (USAA is available to about 60 million people, those who are members of the U.S. military, honorably discharged veterans, and the families of members.) Call or get online quotes directly from the companies.
3. Get a more complete view of the market. We recommend that you check prices from at least a dozen companies in your state, big-name brands and less familiar carriers. You can find the information by going to thezebra.com, a website that uses independent data from Quadrant, the company we engaged for our study, and provides customized premium estimates from 18 to 35 insurers per state. Other websites show quotes from only a handful of companies that do business with the site, so they don't give you a comprehensive way to compare prices. A site like The Zebra will help you assess whether you have a good deal or it might come up with an even better one.

Check our claim satisfaction Ratings at ConsumerReports.org.

4. You can find claim satisfaction Ratings on ConsumerReports.org as an online subscriber. Price is a key component of a good insurance deal. But if you do have a loss, how well an insurer handles the claim is critical. More than 18,000 of our subscribers have rated the major brands on their claims satisfaction, customer service, and price.
5. Repeat the process every two or three years because your coverage needs and credit scores change, and insurers generally update their prices every six to 12 months.
6. Also shop the market whenever your situation changes, say, if you marry or you need to add a teen to your policy. Ask your insurer what the change will mean for your policy, then shop for a better deal. Forget about getting a separate one for a teen; we priced that, too, and it almost always was more than an increase in a family policy.

In the coming months we will continue to report on our investigation into car insurance pricing. As we do, we'll work to find the companies with the best and worst deals as much as possible. For now, bear in mind that because insurance companies use such customized pricing, the broad benchmarks reported here might not always apply to your circumstances. For example, we found that Amica (after its typical 20 percent annual dividend rebate), State Farm, and USAA generally have the lowest prices for single people with top credit scores and no accidents in the 23 states where they're market leaders, and Allstate has the highest. But it could still be true that Geico, Progressive, or another brand might have the best deal in certain ZIP codes for drivers with certain profiles or a different combination of ratings factors.

Price me by how I drive, not by who you think I am!

You don't have to wait for states to pass new laws. You can take action right now:

- Sign and mail this petition. We'll deliver the ones we collect directly to your state's insurance commissioner.
- Tweet the National Association of Insurance Commissioners @NAIC_News to tell them you believe your insurance rate should be based mainly on your driving record, not on other factors. Be sure to use the hashtag #FixCarInsurance.
- Pick up the phone; dialing 855-384-6331 will connect you directly to your state insurance commissioner. Pressure the policymakers!

To: The 50 State Insurance Commissioners

From:

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