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Pay-per-Mile Auto Insurance*

Although forty-eight states make automobile insurance mandatory, tens of millions of cars still go uninsured. Why? Because today's "pay-per-car" insurance system charges the highest prices for cars whose owners reside in low-income neighborhoods where many people, by necessity, must economize. Insurance companies defend the high prices by defaming these people and labeling them "high-risk" drivers. (See Table 18.1.) The reality is that the low-income "high-risk" driver is not a driver at all. It is simply a car that drivers are sharing to economize on insurance**.**

Table 18-1
Official Buyer's Guide for Austin (Travis County), Texas
(Texas Department of Insurance's website is www.tdi.state.tx.us/consumer/auto.html)

Insurance Company	Drivers labeled*	Annual premium per car**
Government Employees	Preferred risk	$320
State Farm Mutual Automobile	Moderate risk	$436
Home State County Mutual	High risk	$714

*Driver records are identical with zero at-fault accidents and no major traffic violations.
**Cars are identically classified in the adult (unisex) driver class, drive-to-work use class and county territory class; premiums are for minimum liability coverage, August 2002.

Today, the price of auto insurance covers all the miles you can drive the car. Therefore, the only sure way to save on insurance is to own fewer cars and drive each more miles than previously. For example, if a family owns two cars and drives each 15,000 miles a year, they can cut their premiums in half by selling one car and driving the other car the same 30,000 miles.

Obviously, inconvenience keeps most families from saving this way. But where many low-income families have to save by piling more miles on fewer cars, the average cost per car to insurance companies **increases**. In response, companies jack up prices, which forces more families to economize by illegally taking their less-used cars off policies. Thus, in low-income zip codes, today's system backfires because it pushes up both the average miles driven and the resulting cost per insured car, forcing still more cars to go uninsured.

To address the problem, Texas passed a breakthrough **cents-per-mile choice law**. The law authorizes insurance companies to offer customers a choice between staying with their old premiums or shifting to "pay-per-mile" premiums. Providing this choice is easy for companies to set up. After first assigning a car as usual to a risk class (by territory, car type and use, and driver age), the company offers the customer a choice between staying with, for example, a fixed $600 a year premium or paying the equivalent 4.0¢ a mile price for the same risk class to buy miles of insurance in advance. At this price, 2,000 miles of insurance costs $80. The number of miles chosen to suit budget and convenience are added to the odometer reading and recorded on the car's insurance card. The owner buys more miles in advance when needed. The company has the odometer read annually as well as when the owner changes cars or companies. If the odometer limit is exceeded, the car is uninsured. It's that simple.

The pay-per-mile alternative also eliminates a major enforcement challenge. Today's insurance card shows the policy term dates but not whether insurance has lapsed because of non-payment of an installment premium. Under the pay-per-mile arrangement, checking the odometer reading against the odometer limit on the insurance card shows immediately whether insurance is actually in force. Driving a car, not owning it, is what produces risk for the insurance company. Risk occurs on a mile-by-mile basis, and that's the right way to pay for it**.**

However, the 2001 Texas law does not require companies to offer the pay-per-mile choice, and so far no company has made this choice available. Failing to do so preserves today's pay-per-car system that inevitably leads to high prices in low-income neighborhoods and many uninsured cars.

Consumers who are angry because cars go uninsured and consumers forced to give up cars to save on insurance have every right to demand that companies offer the pay-per-mile choice. Families are entitled to own as many cars as they need while paying only for the miles of insurance protection actually used in driving them. See www.centspermilenow.org for more information.

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*This section was written by Patrick Butler, Insurance Project Director, National Organization for Women; Email: info@centspermilenow.org; Web: www.centspermilenow.org.