



Support HB 660: Establishes a Low Cost Auto Insurance Pilot Program in Baltimore City and Prince George's County

Auto-insurance is too expensive for low-and moderate-income workers in Maryland

- Maryland's average insurance premiums of \$1,610 a year are the ninth-highest in the nation.¹
- As many as 15% of drivers on the road are currently uninsured, and many more community members struggle to reach jobs and medical appointments without using a car.
- A survey of recipients who qualified for a free car program in Maryland found that many spent 12-18% of their monthly budget on car insurance – far more than the 2% of income affordability standard developed by the Federal Insurance Office.²
- The Federal Insurance Office's (FIO) study on auto insurance affordability assessed the cost of auto insurance in underserved communities throughout the nation. FIO found that over 330,000 people live in ZIP codes in Maryland where auto insurance is currently unaffordable, including the majority of people living in Baltimore City and Baltimore County.³
- A 2013 study by the Consumer Federation of America (CFA) found that the costs of limited liability insurance ranged from \$1,225 a year to more than \$4,180 a year for a Baltimore City driver.⁴

The Consequences and Costs of Being Uninsured

- Maryland requires drivers to carry insurance. At a minimum, drivers are required to carry limited liability insurance, which is \$30,000/\$60,000/\$15,000 in Maryland.
- Failure to have auto insurance carries an array of criminal and civil consequences, including: a \$150 fee for the first 30 days of driving uninsured; \$7 for each day thereafter; a \$25 restoration fee; a ban on registering new vehicles or renewing registration until all insurance suspensions are cleared; and the confiscation of license plates.⁵
- Driving without insurance is a misdemeanor and subject to a \$1,000 fine for a first offense and up to one year in jail and five points added to the individual's license. A second offense can surpass \$2,000 in charges and up to two years in jail. In addition, another five points may be added to the individual's drivers license and the driver's insurance rates will increase with a second offense.
- Maryland has passed a number of policies to enforce the law requiring drivers to purchase insurance, but we have done very little to make auto insurance more affordable and enable

¹ <http://www.insure.com/car-insurance/car-insurance-rates.html>

² <https://www.treasury.gov/press-center/press-releases/Pages/jl0512.aspx>

³ Ibid.

⁴ <http://consumerfed.org/pdfs/auto-insurers-charge-higher-rates-high-school-grads-blue-collar-workers.pdf>

⁵ <http://www.mva.maryland.gov/vehicles/insurance/uninsured.htm>



low-wage workers to comply with the law.

- A worker in Maryland making minimum wage, working full-time earns \$19,200 per year before taxes. This means that a low-wage worker would have to pay almost 10% of their income if they have an average premium of \$1,610, and more than 20% of their income if their insurance is in the \$4,180 range for a Baltimore City driver.
- We can require that drivers carry insurance, but it is poor public policy if we create a system that can jail someone for failure to carry insurance, yet does nothing to make sure that low-income workers can afford to comply with the law.

Why is Insurance so Expensive?

A key structural issue driving up costs for auto-insurance in Maryland is our minimum liability requirement. The minimum liability is broken into three amounts of coverage-bodily injury per person/bodily injury per accident, and property damage liability-together these comprise the minimum limited liability required by law. In 2010, the General Assembly raised the minimum liability required for auto insurance from \$20,000 /\$40,000/\$10,000 to \$30,000/\$60,000/15,000.

This brings our limited liability requirements to one of the highest in the entire country. Only Alaska and Maine have higher minimum liabilities.

| State | Limited Liability Policy |
|------------------|----------------------------|
| Maryland | \$30,000/\$60,000/\$15,000 |
| Delaware | \$20,000/\$50,000/\$10,000 |
| Washington, D.C. | \$25,000/\$50,000/\$10,000 |
| Pennsylvania | \$15,000/\$30,000/\$5,000 |
| Virginia | \$25,000/\$50,000/\$20,000 |
| West Virginia | \$25,000/\$50,000/\$25,000 |
| New Jersey | \$15,000/\$30,000/\$5,000 |
| New York | \$25,000/\$50,000/\$10,000 |

Source: [Policy Genius](https://www.policygenius.com/auto-insurance/car-insurance-required-in-every-state/)⁶

⁶ <https://www.policygenius.com/auto-insurance/car-insurance-required-in-every-state/>



Solution: Create an Affordable Auto Insurance Policy that Low-Wage Workers and Working Families Can Afford

Maryland can create a means-tested pilot program for an affordable auto insurance policy. The policy can start as a pilot in Baltimore City and Prince George's County that would allow low-income drivers to purchase auto-insurance with a lower limited liability.

For example, the program could provide a lower-limited liability such as California's bare bones policy (\$10,000/\$20,000, \$5,000) or even a liability equivalent to Pennsylvania's limited liability policies for all drivers (\$15,000/\$30,000/\$5,000). The key factors are that the program is:

- Means tested (300% of the poverty line);
- Good drivers only
- Revenue neutral
- Actuarially sound (meaning rates must be filed with MIA & cover administrative costs for companies)

How would it work?

California's experience with a successful low-income affordable insurance program provides Maryland with a model for our pilot program. In California, under this program, the average cost of insurance for qualified drivers is \$384 (four times less than the average cost of insurance in Maryland). California achieved this by providing a bare bones (\$10,000/\$20,000) policy for low-income drivers with perfect driving records. Significantly, 70% of drivers who enrolled in the program had not had not been insured prior to joining.

In California, which has a shared risk pool, each insurance company underwrote a percentage of the policies, based on their share of the California insurance market. The insurance policy was approved by the California insurance commissioner so that it was actuarially sound; the cost of the policy covered the costs to administer it, so no insurance company lost money providing the policy; and it was revenue neutral – it was not a subsidy or charity model, it was an equity model.

Maryland could introduce this pilot program for high-cost areas, specifically Baltimore City and Prince George's County. While Maryland Auto could run this program through its division, if that is not feasible, property and casualty producers could offer this policy to qualified applicants without Maryland Auto. As more low-income, good drivers become insured by obtaining insurance policies through this new program, our roads will become safer, and more importantly, low-wage workers will be able to afford to comply with the law.

A low-income affordable insurance program will create an on-ramp for working families who are not driving because of the high cost of insurance, who are driving without insurance, or who are sacrificing vital necessities in order to pay for insurance.