

# **Keller-Lowry**

**Insurance, Inc.**

## **July 1 Auto Insurance Tort Reform Update**

We are sure that many of you have heard that effective July 1, 2003, the State of Colorado will switch to a “tort” system for automobile insurance. This is a fault-based auto insurance system in which the insurance company of the person who is responsible for the accident foots the bills for injuries and damages. The biggest difference between Colorado’s new tort system and Colorado’s old no-fault system is who is held accountable for damages incurred in an auto accident.

Under no-fault, you had to purchase liability coverage and separate medical coverage (Personal Injury Protection, or PIP) so that your own auto insurance company could pay for your medical bills and lost income, regardless of who caused the accident. Under the new tort system, you are only required to buy liability coverage to pay for bodily injury and property damage that you cause to others when you are at fault in an accident. You may also now choose to buy additional coverage to help pay for your own injuries. Tort based systems are the most common form of auto insurance in many states in the U.S.

### **What happens to my auto insurance policy on July 1, 2003?**

The current no-fault law expires on July 1, 2003. This means that all policies that are issued or renewed on or after that date will be written as tort policies. However, if you have a policy that was written before that date and expires after July 1, you will still receive the benefits of a no-fault policy until that policy expires. When your policy is renewed after July 1, 2003 it will then be switched to a tort policy.

### **What if I don’t want to continue PIP coverage after July 1, can I buy a tort policy?**

Yes, as long as you and your insurer agree to the change. But, most carriers are asking that you continue with your no-fault insurance until the current policy expires. It is better coverage anyways.

### **Will I be able to purchase coverage for medical payments under a tort system?**

Yes, most carriers will offer a range of medical coverage options. This provides coverage for medical bills incurred by you, your family, and passengers in your car who are injured in and auto accident.

### **What happens if I am in an auto accident and my medical bills exceed the medical coverage that I have purchased?**

Under a tort system, it is assumed that the negligent party is responsible for damages for bodily injury or property damage. If you are the one responsible for the accident, then either you, or your health insurance will pay for your medical expenses that exceed the medical payment limits of your policy. If you are involved in a work related accident then your workers’ compensation insurance would be primary.

### **What happens if I am injured by an at-fault driver who does not have auto insurance?**

If you have purchased uninsured or underinsured motorist coverage, your insurance company will cover your medical expenses. If you have not purchased these coverages, you, your workers' compensation or your health insurance will likely pay your medical bills. You may of course sue the at-fault driver, but these uninsured motorists typically don't have substantial assets to recover damages.

### **What is auto liability insurance?**

Liability insurance is generally defined as coverage for bodily injury or property damage you cause to another person through negligent use of your vehicle. The minimum amount of liability insurance required by Colorado law is as follows:

- \$25,000 per person for bodily injury
- \$50,000 per accident for bodily injury and;
- \$15,000 per accident for property damage

### **How much auto liability insurance should I carry?**

The limits listed above can be exhausted quickly in the case of a serious auto accident. Today's high costs of medical coverages and the repair of automobiles, it doesn't take much. At Keller-Lowry Insurance we recommend that you carry as high of a limit of liability as you can afford. Typically, a \$1,000,000 combined single limit of liability is not uncommon. Higher limits can usually be obtained by purchasing an Umbrella policy. Under the old PIP law, if you injured another person in an accident, that person's PIP coverage would cover their medical expenses and lost income. Under the new tort law, your liability coverage for bodily injury will cover those same expenses if you are at-fault.

### **What happens if I am injured by a negligent party? Do I have to go to court to get my claims paid?**

In the vast majority of cases, the answer is no. Typically, the auto insurance companies settle on a determination of fault in a particular accident, and benefits are paid accordingly. Only in few cases where there is a dispute about who is at-fault or to the extent of the damages will court action be necessary.

### **Under a tort system, if I already have health insurance or workers' compensation insurance do I need to buy extra medical coverage to pay for injuries from an auto accident?**

Colorado's old no-fault law required what was often duplicate coverage to pay for medical bills and other related expenses. If your health insurance or workers' compensation is enough to cover your medical bills, then you may not want to buy any additional medical protection. We highly recommend that you talk to your insurance representative to weigh all of the options.

### **If I add a new vehicle to my current policy after July 1, will the new vehicle lose the PIP Coverage?**

No, any changes to your current policy will have the same coverages that the policy offered prior to July 1, 2003. PIP coverage will be removed when you renew your policy after July 1, 2003.

## Summary

As you might have heard or read, the media has indicated that insurance carriers are expecting as much as a 30% decrease in auto premiums. This might be true in some cases but it will impact other insurance coverages with higher claims costs such as in auto liability for bodily injury and uninsured motorist coverages, workers' compensation and health insurance. Higher claims costs in these areas will increase those respective premiums over time. It will take awhile for the insurance carriers to make these adjustments but you can expect increases. So, although it seems that you might initially save some money, in the long run a 30% decrease is very unlikely.

The expiring PIP law has excellent medical and income benefits and it is recommended that you continue with that coverage until that policy expires. At renewal you will then have to switch to the tort law coverage.

It is very important to recognize that the new tort system will have different impacts for personal auto policies versus commercial auto policies. Because commercial auto drivers should have workers' compensation coverage that always pays for injuries first in work related accidents, the changes in medical benefit coverages will have less of an impact. For personal auto policies, it will be very important to consider the amounts of medical benefits you should purchase for your auto insurance compared to your own health and disability insurance and other personal medical options. Many carriers will be including some form of medical coverage for renewals that you can opt out of or increase if you choose.

Another item that will be very important to consider is disability insurance. This will be important because the prior PIP coverage offered some loss of income benefits. Under the new Tort system, no loss of income coverage is provided. Therefore, if you are injured in an at-fault accident and you cannot work, disability insurance could help pay for your cost of living. If you are injured in an accident that was not your fault, then your loss of income will be covered by the other insured party.

As always, Keller-Lowry Insurance, Inc. appreciates the opportunity to service your personal and business insurance needs. Please feel free to contact your Keller-Lowry representatives if you have further questions. We would also like to thank the Colorado Division of Insurance and the Rocky Mountain Insurance Information Association (RMIIA) for providing much of the information presented in this update.

Keller-Lowry representatives will be watching this change closely and will be working with all of its insurance carriers to make sure that the transition goes smoothly.