

Apples to Oranges: Not All Auto Insurance Policies Are the Same

When it comes to auto insurance policies, there are countless options on the market. However, not all policies are created equal. While you may be tempted to buy the insurance policy with the lowest price tag, this choice could end up costing you untold amounts of money in the long-run.

It's extremely important to read the fine print and understand the differences between the various auto insurance options available to you. Here are a few tips for choosing the best policy:

Know your limits

Some auto insurance policies are quoted with extremely low limits, leaving their policyholders dangerously under-insured. In some states, the recommended liability limits are as low as \$25,000. This meager amount often doesn't come close to the actual worth of the policyholder. As a matter of fact, some experts say that up to 50 percent of U.S. drivers do not have enough auto insurance coverage.

It's important to make sure that you aren't one of the thousands of under-insured drivers. Otherwise, if you are in a car accident, you could find yourself forking out your hard earning money—even though you have auto insurance!

When you're on the market for a new auto insurance policy, be sure to explain your specific needs and financial situation to your insurance agent. A true professional can run a detailed assessment of your risk profile to ensure that you receive the proper amount of liability coverage.

Covering the gap

Oftentimes, auto insurance policies don't cover the full replacement value for your car if it is totaled. While the carrier may pay for the total losses based on the actual cash value of your vehicle at the time of the accident, many carriers don't pay the full replacement cost of your original car purchase. In other words, you are not protected against the depreciation of your car with these policies.

If you have this kind of policy and your car is totaled, you'll end up paying the difference out of your own pocket for a comparable vehicle. This is known as the "replacement gap" in the industry.

However, there are some auto insurance policies that can help you avoid this gap. Many of these policies cover the full purchase price of your car, including taxes and license fees if your car is totaled within the first year after purchasing. Oftentimes, these carriers will even waive your deductible. Then, every year after the first year, your car's value is determined by Blue Book, the auto industry's standard vehicle pricing guideline.

Get customized

If your family has more cars than drivers, you may be able to get a discount if you choose the right carrier. Many families who own a recreational vehicle or "work truck" end up paying higher premiums. However, many of these cars aren't driven on a regular basis—and therefore shouldn't carry such high rates.

If you find yourself in this situation, try to find an insurance carrier that offers customized rates and deep discounts for rarely driven vehicles. A reputable insurance agent can help you find the best policy for your particular needs.

Read the fine print

When you first obtain auto insurance, you may notice that a few items are not covered by the policy. While this may not seem like a big deal at the time, these uncovered items can really stack up when you're in an accident.

For example, many policies require that you only take your damaged vehicle to "in-network" repair shops. This can end up costing you a pretty penny and a lot of hassle after an accident. If you want to avoid these kinds of headaches, be sure to find a carrier that allows you to choose your own repair shop without paying a penalty fee. Read the fine print and make sure the policy covers all the items that are most important to you.

Work with a pro

At some time or another, most of us have received phone calls from insurance "sales representatives" trying to sell us auto insurance. These salespeople, who often work from phone scripts, don't truly understand all the ins and outs of auto insurance—much less what kind of policy your unique situation requires.

This is why it's so important to work with a professional independent insurance agent when purchasing auto insurance. Such an agent can guide you through the details of each different policy and recommend the most appropriate option for your distinctive needs.

As you work with an independent insurance agent, be sure to discuss your net worth, your opinions about asset protection and what you expect when it comes to handling insurance claims. This will ensure that the agent pinpoints the best policy that meets all of your needs and fits your preferences.