Know Your Auto Insurance Needs If You Plan to Lease

While approximately 80 percent of car buyers either pay cash or finance their purchase, you're considering joining the other 20 percent who are willing to forgo ownership and lease their next set of wheels. Perhaps you're self-employed and able to deduct your lease payment as a business expense. Or maybe you're trying to step up to a luxury model for less upfront cash.

Whatever your reason, if you do decide to lease, keep in mind that the amount of insurance protection you need will likely be more than if you decided to purchase. When you lease, your vehicle belongs to the leasing company. They want to ensure their investment is covered should you have an accident that damages or destroys the vehicle, or if the vehicle is stolen. They will also want you to carry sufficient liability coverage in case you are found to be at fault for an accident. This not only protects you from financial disaster, but also covers the leasing company if they should be held partly responsible in a lawsuit. While all 50 states have different requirements, on average, the minimum liability insurance coverage for most states is about one quarter of what leasing companies usually require.

You will also be required to maintain collision and comprehensive coverage, which pays for damages resulting from fire, theft, vandalism, civil riot, and collisions with animals. While you generally have a choice of deductibles, your lease contract may stipulate a dollar cap on the deductible amount.

Your lease contract may also include what is known as “gap insurance.” If you wreck your car, this insurance pays the difference between the outstanding balance on your lease and the claim payment from the primary insurer.

After a major accident in which your car is badly damaged, the insurer has the option of "totaling" the car and paying you or the leasing company the actual cash value of the car, or repairing it. Without gap insurance, if the car is totaled, even after the leasing company receives the claim proceeds from the insurer, you may still not have satisfied your lease contract.

If your lease contract does not include gap insurance, you should consider purchasing it on your own. Otherwise, you could find yourself paying for a car you no longer drive in addition to paying for a replacement vehicle.

If the insurer decides to repair your car, make sure the repairs won’t cause problems for you at the end of your lease. Most lease contracts stipulate that you're responsible for "excess wear and tear." This phrase makes you responsible for any damage to the car, even that which was previously covered by your insurance.

To avoid repercussions resulting from the repair of your vehicle, be sure that all of the paint matches, the tires match, and that repairs were completed with original equipment manufacturer (OEM) parts. If the car isn’t returned to the leasing company in its expected condition, you may be responsible for the cost of additional repairs.