



Comparing Socioeconomic Status and Auto Insurance Rates in Michigan

A report commissioned by the Coalition Protecting Auto No-Fault

Abstract

Although factors such as job title and whether the driver owns a home are not meaningfully related to a motorist's risk of loss, Michigan drivers who have working class jobs, do not have a college degree, or rent rather than own their home pay an average of \$233 per year more for auto insurance compared to their white collar peers.

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Automobile insurance premiums are supposed to vary based on the relative risk of the insured drivers. When done correctly, the pricing should send useful signals to drivers about how to lower their rates by reducing their risk. For example, premiums rise for drivers who are convicted of driving under the influence, providing a financial incentive not to drink and drive. Similarly, when consumers are offered discounts for being accident free or for lower annual mileage they learn how to save money by reducing risk. When polled, the public agrees that the use of these driving-related factors by insurance companies is fair.¹

In June of 2017 the Coalition Protecting Auto No-Fault commissioned a research study to analyze how *non-driving* related factors influence car insurance rates. The analysis reviewed online auto insurance rate quotes from AAA, Allstate, Esurance, Liberty Mutual, Progressive, and State Farm. These companies were selected because they represent more than half of Michigan's auto insurance market and provide online quotes to prospective Michigan customers.

The subject used for the insurance quotes was a 30 year old unmarried female driver with a perfect driving record. Other characteristics of the driver include:

- Owns a 2007 Ford Fusion S;
- Drives 10,001 miles per year;
- Currently insured by a major insurer;
- Has health insurance that provides coordinated (primary) PIP coverage; and
- No accidents, tickets, or claims.

240 online premiums were collected for the test customer in Detroit, Flint, Grand Rapids, Howell, Iron Mountain, Ludington, Owosso, and Warren. The only characteristics of the test customer that varied in the testing were: the driver's occupation, level of education, and whether she rented or owned her home. The tests exclusively considered premiums for people with perfect driving histories and no prior claims.

The data show that one's socioeconomic status can lead to significant increases in auto insurance premiums (see Appendix A for the dollar impact in all eight communities tested). Although factors such as job title and whether the driver owns a home are not meaningfully related to a motorist's risk of loss, Michigan drivers who have working class jobs, do not have a college degree, or rent rather than own their home pay an average of \$233 per year more for

¹ According to a June 2016 ORC International Survey of 1,006 Americans, more than 80% surveyed agreed that the it was either somewhat or very fair for auto insurers to consider traffic accidents caused and moving violations when setting premiums. See http://consumerfed.org/wp-content/uploads/2016/06/6-27-16-Auto-Insurance-and-Economic-Status_Report.pdf, p.4.

basic auto insurance. On a statewide basis, this represents a 12 percent socioeconomic status penalty. The results from all 240 tests is included as Appendix B.

The research finds that a factory worker living in Detroit, Flint, or Warren pays an average of \$265 more for auto insurance than an investment banker for the same basic policy. In smaller towns, such as Howell and Owosso, factory workers face prices that average \$119 higher than investment bankers, with some unemployed drivers in Howell paying \$457 more per year based solely on their personal and economic status. Figure 1 illustrates the average premium hike faced by working class drivers in each of the tested communities.

Figure 1 Auto Insurers' Socioeconomic Status Penalties by City and Town

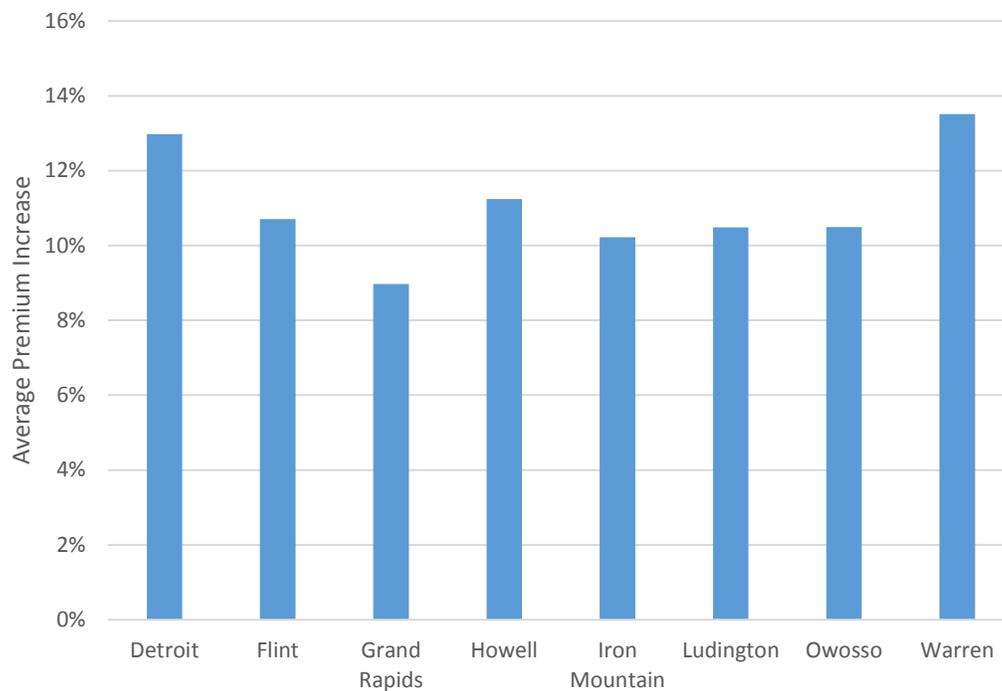


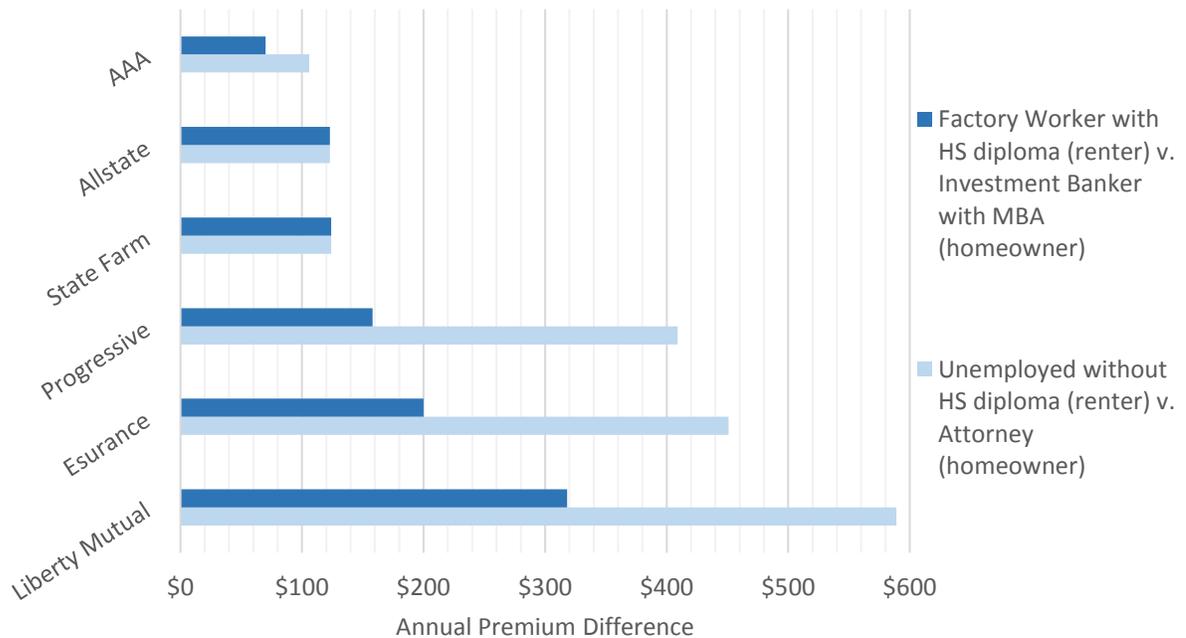
Figure 2 shows the average premium quote offered to each of the different customers tested in eight cities. Across the state, basic car insurance premiums cost a factory worker with a high school diploma who rents a home 4.2 percent more (\$72 per year) than a factory foreman with a college degree who rents, and 9.1 percent more (\$166 per year) than an investment banker with an MBA degree who owns a home. The study finds that laid-off workers, especially with lower levels of educational attainment face the most extreme premium spikes: an unemployed renter without a high school diploma faces auto premiums that are 17.8 percent higher on average, \$300 per year, than a lawyer who is a homeowner.

Figure 2. Average Annual Premium Based on Job Title, Education & Homeownership Status

	Lawyer, JD & Homeowner	Investment Banker, MBA & Homeowner	Factory Foreman, BA & Renter	Factory Worker, HS & Renter	Unemployed, No Diploma & Renter
Detroit	\$3,843	\$3,861	\$4,053	\$4,218	\$4,487
Flint	\$2,706	\$2,714	\$2,835	\$2,921	\$3,079
Grand Rapids	\$1,382	\$1,385	\$1,448	\$1,471	\$1,544
Howell	\$1,505	\$1,510	\$1,577	\$1,632	\$1,722
Iron Mountain	\$1,340	\$1,345	\$1,402	\$1,444	\$1,516
Ludington	\$1,373	\$1,378	\$1,438	\$1,483	\$1,556
Owosso	\$1,518	\$1,523	\$1,588	\$1,639	\$1,721
Warren	\$2,502	\$2,514	\$2,634	\$2,747	\$2,947
Average	\$2,021	\$2,029	\$2,122	\$2,194	\$2,322

As Figure 3 illustrates, all six companies tested charge higher rates based on at least some of these personal and economic considerations that are not related to drivers' safety. Progressive, Liberty Mutual, and Esurance are the most aggressive in their use of these non-driving factors. These three companies charged an average of \$483 more across the state for people out-of-work compared to lawyers with the same driving record. The two largest premium differences driven by these factors were imposed by Liberty Mutual, which charges \$1,259 more in Detroit and \$996 more in Warren to customers purchasing minimum insurance coverage who are unemployed compared to those who are lawyers. In Detroit, Esurance and Progressive charge \$968 and \$928 more, respectively. Also in Detroit, AAA bumps up premiums for unemployed renters by \$190, Allstate increases premiums to renters by \$210, and State Farm adds \$306.

Figure 3. Average Annual Auto Insurance Premium Penalty Statewide, by Company



It is notable that not all companies use all of the personal and economic factors tested. State Farm and Allstate do not consider drivers' educational level or their job title, for example. This suggests that these factors are, at least, actuarially unnecessary and, at most, surrogates for factors that should already be captured in rating such as annual miles driven or, possibly, for disallowed factors such as income and race.

Stronger consumer protections would reduce premiums and decrease the number of uninsured drivers in Michigan

While Michigan lawmakers and the state's insurance regulators have allowed auto insurers to penalize working class drivers over the years, either stronger regulatory enforcement or legislative action could eliminate these unfair pricing practices. Recent steps taken in other states shed light on how Michigan policymakers could end these socioeconomic status surcharges:

- In July 2017, Minnesota Insurance Commissioner Mike Rothman ordered Farmers Insurance to pay refunds to more than 1,600 drivers who were surcharged due to their status as home renters, in violation of a state law prohibiting auto insurers from considering homeownership when setting rates.
- In May 2017, New York Superintendent of Financial Services proposed regulations to enforce that state's prohibition on unfairly discriminatory auto insurance rates by limiting insurance companies ability to tie rates to customers' job title or level of education.

Under Michigan law, as with New York and virtually every other state, automobile insurance rates “shall not be excessive, inadequate, or unfairly discriminatory.”² The Michigan Department of Insurance and Financial Services should require insurance companies to demonstrate that (and explain why) charging good drivers higher rates because of their working class job title, education level, and homeownership status does not constitute unfair discrimination. If companies are unable to provide a compelling actuarial justification for maintaining socioeconomic status surcharges, DIFS should prohibit the use of these rating factors in accordance with the state ban on unfair discrimination in insurance.

Other Michigan laws already prohibit insurance companies from considering other personal characteristics, such as race or national origin, when setting premiums. Similarly, the Legislature could determine that socioeconomic discrimination is not an actuarial question but a matter of public policy. Just as Minnesota law outlaws the use of homeownership status in auto insurance pricing, Michigan law could be amended to explicitly bar the use of socioeconomic markers such as job title, education, and homeownership when insurance companies set auto premiums.

Citizens of Michigan could also pursue a ballot initiative to reform the insurance pricing practices in the state. California voters did this in 1988 and enacted the nation’s strongest insurance consumer protection laws. That measure, known as Proposition 103, has saved California drivers billions of dollars.³ Among other reforms, the law prioritizes driving-related factors for premium setting, including driving safety record, annual miles driven, and years of driving experience. The law authorizes insurance companies to use only approved auto insurance rating factors when setting customers’ premiums; occupation, level of education, and homeownership status are not approved for use in California.

Conclusion

Michigan law requires every driver to purchase a basic auto insurance policy. However, for working class and unemployed residents, as well as lesser educated residents and renters, insurance companies’ use of socioeconomic characteristics raises rates dramatically for many drivers despite their perfect driving records. These high prices charged to financially strapped Michiganders also has led to the state having the fifth highest incidence of uninsured drivers in the country.⁴

The pricing practices of several major insurers revealed by this research are unfair to the Michigan drivers with clean driving records whose auto premiums include surcharges due to their job title, level of schooling, or homeownership status. This pricing model, and the large number of uninsured drivers that stem from these socioeconomic surcharges, also places an

² Michigan Insurance Code Section 500.2109

³ Hunter, J.R., Feltner, T. and Heller, D. (November 2013). What Works: A Review of Auto Insurance Rate Regulation in America and How Best Practices Save Billions of Dollars. Consumer Federation of America. http://www.consumerfed.org/pdfs/whatworks-report_nov2013_hunter-feltner-heller.pdf

⁴ See Insurance Information Institute: <http://www.iii.org/fact-statistic/uninsured-motorists>

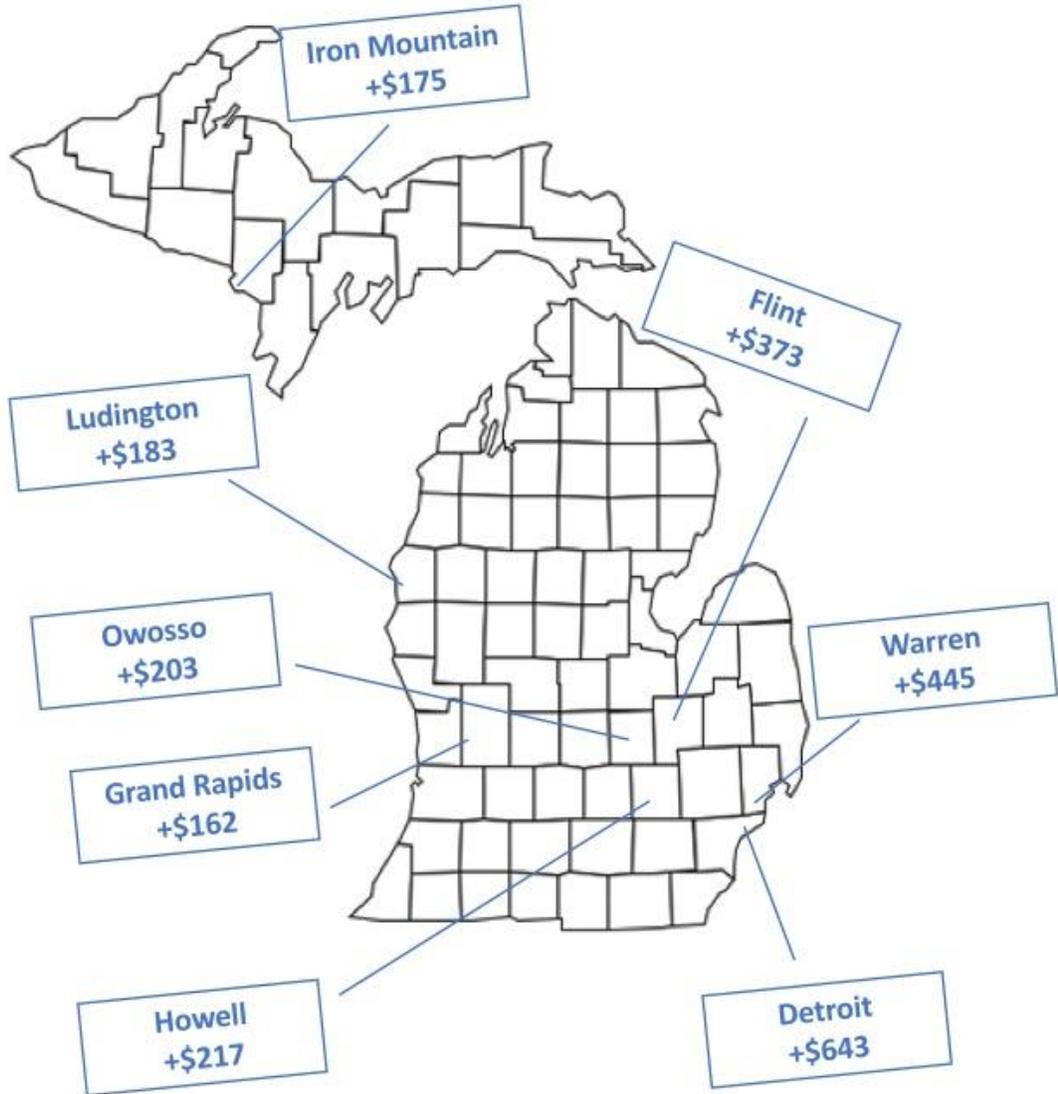
unnecessary burden on millions of other Michigan motorists who must pay high uninsured motorist premiums.

Auto insurance premiums should be tied to driving-related risk factors, but, as this report demonstrates, for many Michigan motorists, the reason they pay so much for coverage has more to do with their social status than their driving ability.

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Appendix A

Auto Insurers Raise Premiums for Being Out of Work



Michigan Average +\$300

Annual premium difference between unemployed renter without high school diploma and lawyer who is a homeowner

Appendix B

City	Company	Lawyer, JD & Homeowner	Investment Banker, MBA & Homeowner	Factory Foreman, BA & Renter	Factory Worker, HS & Renter	Unemployed, No Diploma & Renter
Detroit	Progressive	\$2,269	\$2,375	\$2,501	\$2,713	\$3,197
Detroit	Liberty Mutual	\$3,040	\$3,040	\$3,316	\$3,734	\$4,299
Detroit	Allstate	\$5,418	\$5,418	\$5,628	\$5,628	\$5,628
Detroit	Esurance	\$3,322	\$3,322	\$3,490	\$3,786	\$4,290
Detroit	Auto Club	\$3,091	\$3,091	\$3,157	\$3,218	\$3,281
Detroit	State Farm	\$5,921	\$5,921	\$6,226	\$6,226	\$6,226
Flint	Progressive	\$1,355	\$1,405	\$1,477	\$1,581	\$1,813
Flint	Liberty Mutual	\$1,699	\$1,699	\$1,844	\$2,063	\$2,359
Flint	Allstate	\$5,244	\$5,244	\$5,452	\$5,452	\$5,452
Flint	Esurance	\$1,740	\$1,740	\$1,816	\$1,950	\$2,300
Flint	Auto Club	\$2,936	\$2,936	\$2,998	\$3,056	\$3,126
Flint	State Farm	\$3,261	\$3,261	\$3,425	\$3,425	\$3,425
Grand Rapids	Progressive	\$809	\$827	\$869	\$905	\$987
Grand Rapids	Liberty Mutual	\$1,414	\$1,414	\$1,532	\$1,548	\$1,758
Grand Rapids	Allstate	\$2,406	\$2,406	\$2,490	\$2,490	\$2,490
Grand Rapids	Esurance	\$1,106	\$1,106	\$1,152	\$1,220	\$1,350
Grand Rapids	Auto Club	\$1,048	\$1,048	\$1,066	\$1,084	\$1,102
Grand Rapids	State Farm	\$1,509	\$1,509	\$1,579	\$1,579	\$1,579
Howell	Progressive	\$1,009	\$1,039	\$1,093	\$1,153	\$1,289
Howell	Liberty Mutual	\$1,244	\$1,244	\$1,345	\$1,496	\$1,701
Howell	Allstate	\$2,402	\$2,402	\$2,486	\$2,486	\$2,486
Howell	Esurance	\$1,368	\$1,368	\$1,428	\$1,522	\$1,698
Howell	Auto Club	\$1,331	\$1,331	\$1,355	\$1,379	\$1,403
Howell	State Farm	\$1,674	\$1,674	\$1,753	\$1,753	\$1,753
Iron Mountain	Progressive	\$997	\$1,023	\$1,075	\$1,135	\$1,271
Iron Mountain	Liberty Mutual	\$847	\$847	\$910	\$1,005	\$1,133
Iron Mountain	Allstate	\$2,544	\$2,544	\$2,638	\$2,638	\$2,638
Iron Mountain	Esurance	\$1,238	\$1,238	\$1,286	\$1,370	\$1,520
Iron Mountain	Auto Club	\$969	\$969	\$985	\$1,001	\$1,018
Iron Mountain	State Farm	\$1,448	\$1,448	\$1,515	\$1,515	\$1,515
Ludington	Progressive	\$995	\$1,023	\$1,079	\$1,137	\$1,271
Ludington	Liberty Mutual	\$903	\$903	\$972	\$1,074	\$1,213
Ludington	Allstate	\$2,386	\$2,386	\$2,474	\$2,474	\$2,474
Ludington	Esurance	\$1,256	\$1,256	\$1,308	\$1,396	\$1,550
Ludington	Auto Club	\$1,032	\$1,032	\$1,050	\$1,071	\$1,085
Ludington	State Farm	\$1,667	\$1,667	\$1,746	\$1,746	\$1,746

Owosso	Progressive	\$951	\$977	\$1,025	\$1,079	\$1,201
Owosso	Liberty Mutual	\$1,104	\$1,104	\$1,193	\$1,325	\$1,504
Owosso	Allstate	\$2,382	\$2,382	\$2,468	\$2,468	\$2,468
Owosso	Esurance	\$1,292	\$1,292	\$1,348	\$1,436	\$1,598
Owosso	Auto Club	\$1,734	\$1,734	\$1,768	\$1,799	\$1,832
Owosso	State Farm	\$1,647	\$1,647	\$1,724	\$1,724	\$1,724
Warren	Progressive	\$1,693	\$1,765	\$1,855	\$1,997	\$2,319
Warren	Liberty Mutual	\$2,460	\$2,460	\$2,676	\$3,012	\$3,456
Warren	Allstate	\$3,562	\$3,562	\$3,692	\$3,692	\$3,692
Warren	Esurance	\$1,876	\$1,876	\$1,964	\$2,118	\$2,502
Warren	Auto Club	\$2,410	\$2,410	\$2,455	\$2,502	\$2,551
Warren	State Farm	\$3,010	\$3,010	\$3,159	\$3,159	\$3,159

Appendix C

About the Author:

Douglas Heller is an independent consultant and nationally recognized insurance expert. During nearly two decades of work on public policy and regulatory matters related to property-casualty insurance, Heller has written several reports on auto insurance pricing in the United States, overseen regulatory challenges to insurance company rates and practices, and, for nine years, served as the Executive Director of the national consumer advocacy organization, Consumer Watchdog.

His work has saved policyholders hundreds of millions of dollars on insurance premiums and helped bring to an end unfair auto insurance pricing practices. In addition to conducting research for and providing expertise to consumer rights organizations, Heller serves as a board member of the California Automobile Assigned Risk Plan (CAARP), which oversees that state's innovative Low-Cost Auto Insurance Program for low-income drivers.

Heller holds a B.A. in Political Science from the University of California, Berkeley and a Master of Public Administration degree from the University of Southern California, where he has also taught courses on Strategic Planning for Non-Profits and Public Agencies.