



Consumer Federation of America

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Contact: J. Robert Hunter 703-528-0062

INDUSTRY “AFFORDABILITY REPORT” CONTAINS NO USEFUL INFORMATION ABOUT AUTO INSURANCE AFFORDABILITY FOR LOW- AND MODERATE-INCOME DRIVERS

Washington, DC – A report, “Auto Insurance Affordability,” presented by the Insurance Research Council (IRC) last month to the National Association of Insurance Commissioners on auto insurance affordability contains no useful information, and much misleading information, about this affordability for low- and moderate-income drivers, according to a critique by Birny Birnbaum, an economist who heads the Center for Economic Justice. According to the [critique](#), the IRC “provides no information on what low- and moderate-income auto consumers are charged for auto insurance and how the prices charged for these consumers relate to the resources available to these consumers.”

The report’s measure of affordability, according to Birnbaum, is the relation of overall NAIC average expenditure to median income for the whole population and for those at the 25th percentile income. But there is every reason to believe that lower-income drivers do not pay average expenditures – they appear to pay more for liability coverage, because of industry use of proxies for income such as education, occupation and credit scores and less for collision and comprehensive coverages, which they are less likely to carry. The IRC analysis simply does not match what lower-income consumers pay for required auto insurance with the resources available to them.

The IRC report treats changes over time, but this treatment is flawed in several other ways, including:

- Fails to take into account changes in types and amounts of coverage and deductibles.
- Uses the 25th percentile, ignoring the 25 percent of drivers with incomes below that level and does that only nationally, ignoring the huge variation in the population and population density of states, much less of cities.
- Selects the time period for study most favorable to its bias. Had IRC selected 1999 as its starting point, the result would have not shown the claimed improvement in affordability.

Perhaps the worst flaw is that the report does not study even one actual price paid by a low-income auto owner for state required auto coverage. Had they done so, as CFA has done in six studies (available at www.consumerfed.org), they would see that often the lowest price for the coverage is over \$1,000, more than ten percent of the driver’s income for the lowest income quintile of American families. Even if IRC’s research were valid, which it certainly is not, all

they could possibly claim is not that the insurance is affordable to these lower income good drivers, which they have not studied at all, only that it might be slightly less unaffordable than it was a decade ago.

“To avoid providing data about what they actually charge low- and moderate-income drivers, the industry has concocted a study that contains several fatal flaws,” said J. Robert Hunter, Director of Insurance at the Consumer Federation of America and a former Texas Insurance Commissioner. “To understand auto insurance affordability, state insurance commissioners must study prices that insurers are currently actually charging to policyholders in selected low- and moderate-income ZIP codes,” he added.

The Consumer Federation of America is an association of more than 250 non-profit consumer groups that, since 1968, has sought to advance the consumer interest through research, education, and advocacy.