



## Consumer Federation of America

### CONSUMER EXPENDITURE SURVEY DATA REVEAL DISPARATE RACIAL IMPACTS RELATED TO AUTO INSURANCE

The latest published data from the Bureau of Labor Statistics' Consumer Expenditure Survey (CE) allow an analysis of disparate cost impacts related to the purchase of auto insurance by whites, African-Americans, and Hispanics. This analysis reveals that minorities pay far more than whites to insure each motor vehicle they own, and additional data indicate that minority consumers also receive less coverage for their expenditure. In fact, after accounting for different levels of car ownership among the groups, Hispanics spend 26% more than non-Hispanic whites to insure a single vehicle and African Americans spend 100% more than whites for each car insured.

The Consumer Expenditure Survey represents the most reliable source of data about consumer expenditures throughout the entire U.S. population. Its most recent data (2016 midyear) provide the average annual expenditure on auto insurance for white, African-American, and Hispanic households. These amounts, before being adjusted for levels of car ownership, are \$1,184 for whites, \$1,154 for African-Americans, and \$1,170 for Hispanic households.

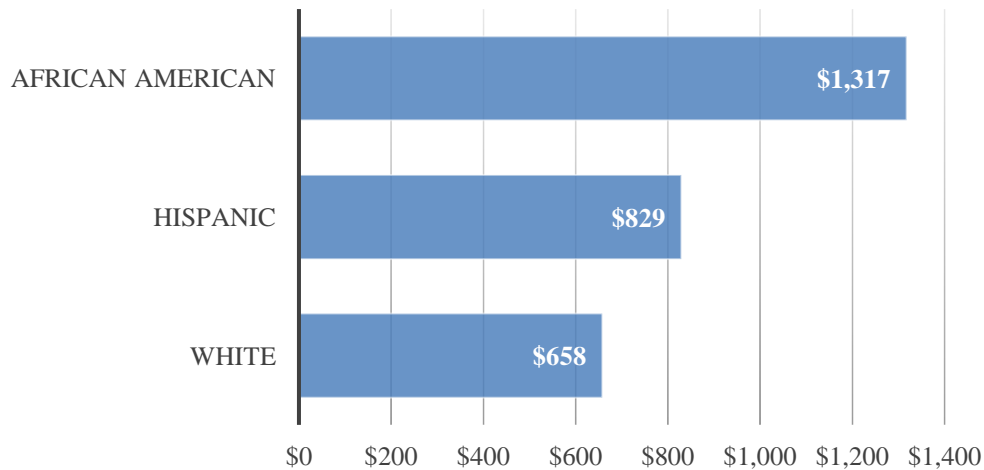
In order to calculate an accurate auto insurance expenditure per vehicle, these figures must be adjusted by two other data points from the CE: the number of households owning vehicles and the number of vehicles per household.

First, since not all households in each racial and ethnic group own cars, the aggregate dollar figures must be adjusted to remove households that do not own cars and thereby spend no money on auto insurance. The CE reports that 90 percent of white households, 73 percent of African-American households, and 83 percent of Hispanic households own at least one motor vehicle, so, conversely, 10 percent of white households, 27 percent of African American households, and 17 percent of Hispanic households do not own a car. Adjusting the aggregate expenditure figures to eliminate households without a vehicle reveals that the average annual expenditure for those households owning at least one motor vehicle is \$1,316 for whites, \$1,581 for African-Americans, and \$1,410 for Hispanics.

A second adjustment must be made to account for the difference in numbers of automobiles owned by households in each group in order to determine the average expenditure on coverage per vehicle. The CE reports that white households own 2.0 vehicles on average, African-American households own 1.2 vehicles, and Hispanic households own 1.7 vehicles. With those data, the figures can be converted from average annual auto insurance expenditures *per household* with vehicles to average annual expenditures *per vehicle*, which yields the following: for whites, \$658 per vehicle; for

African-Americans, \$1,317 per vehicle; and for Hispanics, \$829 per vehicle, as shown below.

### Adjusted Auto Insurance Expenditure per Car



### Data Indicate Minority Households Get Less Coverage at Higher Cost

Additional data about vehicle ownership patterns among different racial and ethnic groups make it clear that the differences in the cost of auto insurance is understated by the CE data alone. There are two considerations that further increase the disparities among whites and minority households: the amount of coverage purchased and levels of uninsured motorists.

The adjusted insurance expenditure by car, derived from CE data above, only reveals how much it costs members of each group to insure a vehicle on average, but it does not factor in the possibility that demographic groups purchase differing amounts of coverage per vehicle for that average cost of insurance. This can be assessed by considering whether the same percentage of whites and minorities are purchasing both liability coverage -- mandated by all states except New Hampshire -- and collision and comprehensive coverage -- which pays for repair or replacement of one's vehicle if it is stolen or damaged in an accident not covered by another driver. There is some evidence that African-American and Hispanic vehicle owners are less likely than white owners to purchase collision and comprehensive coverage. An April 2014 survey of a representative sample of 1,000 adult Americans by ORC International found that 23 percent of African American owners and 21 percent of Hispanic owners, but only 16 percent of white owners, said they purchased only liability coverage and no collision and comprehensive coverage. Vehicle owners with lower incomes and owners of vehicles with low value are less likely to purchase collision and comprehensive coverage, which is not required by state laws, than are owners with higher incomes and more valuable vehicles. If, as the data suggest, minority consumers purchase comprehensive and collision coverage less often than whites, these households are spending more to purchase their auto insurance, as demonstrated by the CE data above, but they actually get less coverage in exchange for their insurance expenditure.

A second factor that likely makes the CE-derived disparities smaller than the actual difference is the different percentages of uninsured drivers among the demographic groups. According to the Insurance Research Council, an estimated 13 percent of all motorists are not insured. As with the accounting for households without vehicles, by eliminating uninsured motorists from the CE data, the average auto insurance expenditure by vehicle owners who do purchase insurance will increase. However, because analyses suggest that there are higher rates of uninsured driving among African American and Hispanic households than white households, it is likely that the expenditures for minorities should be adjusted upward by a greater amount than expenditures for whites, thus further increasing the auto insurance cost gap between the two groups. While there are no precise estimates of the percentage of motorists in different demographic groups that drive without insurance, research indicates that a disproportionate number of the uninsured are low-income, minority drivers.<sup>1</sup> Given that average incomes are lower for minorities, higher levels of uninsured motorists should be expected among these groups, and the average expenditure by household would be disproportionately higher than the CE data indicate.

In sum, there is a substantial gap between the costs of auto insurance purchased by minorities and auto insurance purchased by whites. Along with other research on racial disparities in auto insurance costs, this cost analysis provides further evidence that insurance regulators should investigate the issue of premium disparities among racial and ethnic groups more thoroughly.

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<sup>1</sup> See J. Daniel Khazzom, "What We Know About Uninsured Motorists and How Well We Know What We Know," *Resources for the Future* (2000), 59-93; Tim Query and Al Berryman, "Metrics of Uninsured Motorists: The Challenging Case of New Mexico," *Southwest Business and Economics Journal*, 18 (2010), 49-64; Lyn Hunstad, "Characteristics of Uninsured Motorists," California Department of Insurance (February 1999).