



Consumer Federation of America

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MAJOR AUTO INSURERS CHARGE HIGHER RATES TO HIGH SCHOOL GRADUATES AND BLUE COLLAR WORKERS

National Consumer Survey Reveals That Large Majorities Reject the Use of Education and Occupation in Setting Auto Insurance Rates

Washington, DC – Today, the Consumer Federation of America (CFA) released a new analysis showing that some major auto insurers charge higher rates to drivers with less education and lower-status jobs. Among its findings, the research reveals that for the minimum liability coverage, which state governments require:

- GEICO often charges a factory worker with a high school degree far higher annual premiums than a plant supervisor with a college degree – 45% more in Seattle (\$870 vs. \$599), 40% more in Hartford (\$1299 vs. \$926), 33% more in Oakland (\$922 vs. \$693), 23% more in Louisville (\$2200 vs. \$1791), 21% more in Chicago (\$1013 vs. \$840), and 20% more in Baltimore (\$1971 vs. \$1647).
- At GEICO, these differences would be even greater if, for education, the comparisons also included no high school degree and a graduate degree. For example, the Baltimore factory worker would pay an annual premium of \$2061 with no high school degree, an annual premium of \$1971 with a high school degree, an annual premium of \$1801 with a college degree, and an annual premium of \$1722 with a graduate degree.
- Progressive also often charges a factory worker with a high school degree higher annual premiums than a plant supervisor with a college degree – 33% more in Baltimore (\$1818 vs. \$1362), 14% more in Houston (\$1406 vs. \$1236), 9% more in Louisville (\$2390 vs. \$2185), 9% more in Denver (\$995 vs. \$911), and 8% more in Oakland (\$736 vs. \$684).
- Liberty Mutual charges a high school graduate higher annual premiums than a college graduate – 13% more in Baltimore (\$2116 vs. \$1877), 13% more in Houston (\$1373 vs. \$1216), 12% more in Phoenix (\$1592 vs. \$1418), and 10% more in Hartford (\$1913 vs. \$1735). In five other cities studied – Atlanta, Louisville, Chicago, Denver, and Seattle – Liberty’s website quoted rates for a college graduate but not for a high school graduate.
- In many cities, Farmers charges those who are neither professionals nor certain government workers five percent higher premiums.

For each of these factors, all factors except education and income were held constant. These factors, including a perfect driving record, are described below.

“Auto insurers charge high premiums for minimal coverage to most working people, even those with perfect driving records, who live in urban areas,” said Stephen Brobeck, CFA’s Executive Director. “Since most Americans need a car and almost all states require the purchase of auto insurance, many lower-income workers are faced with the choice of paying these high, and often unaffordable prices, or breaking the law by driving without insurance,” he added. CFA estimates that one-quarter to one-third of drivers with household incomes under \$36,000 – 40 percent of all households – are uninsured.

Public Rejects Use of Education and Income in Auto Insurance Rate-Making

Yet, a national survey has revealed that, by large majorities, the public rejects the use of education and occupation by auto insurers in setting rates. In a June 2012 survey of a representative sample of 1010 adult Americans, conducted by ORCI, 68% of respondents said it was unfair for auto insurers to use education, while 65% said it was unfair for insurers to use occupation, in setting rates. For those with moderate household incomes (\$25,000-\$50,000), the percentages were even higher – 74% for education and 69% for occupation. (Respondents were interviewed either by landline or cell phones, and the margin of error was plus or minus three percentage points.)

“The American public knows that it is unfair for auto insurers to use factors like education and occupation in setting rates,” said J. Robert Hunter, CFA’s Director of Insurance, a former Texas Insurance Commissioner, and a former Federal Insurance Administrator. “In effect, auto insurers are discriminating on the basis of income and race. States should prohibit the use of these demographic factors that bear no logical relation to insurer risk.”

Much research has shown that both education and occupation are highly correlated with income and ethnicity. While many states prohibit the use of education and occupation to deny coverage, they permit the use of these factors in setting rate levels. That helps explain why some quoted annual premiums for minimum liability coverage are so high – sometimes exceeding \$3000, even \$4000. These high rates, which few drivers if any pay, effectively deny low- and moderate-income consumers coverage.

Minimum Liability Rates Are High Across-the-Board for Moderate-Income Good Drivers in Urban Areas

The CFA analysis, conducted in May and June 2013, examined the use of education and occupation by the ten largest auto insurers by market share – State Farm, Allstate, GEICO, Progressive, Farmers, USAA, Liberty Mutual, Nationwide, Travelers, and American Family – in ten major urban areas in different parts of the country – Hartford, Baltimore, Atlanta, Louisville, Chicago, Houston, Denver, Phoenix, Oakland, and Seattle. CFA used the websites of these insurers to determine whether they use education and occupation in their pricing and, if so, the impact of the use of these factors. The driver studied was a 30-year old single woman renting in a moderate-income area (c. \$30,000 median income), who was driving a 2003 Honda Civic, had driven for ten years with no accidents or moving violations, and was without insurance coverage for the past 15 days.

As the table below reveals, if this woman were a factory worker with a high school degree, she would be charged high to very high annual premiums for minimum liability coverage by the eight insurers whose websites permitted rate comparisons (USAA and American Family did not) in five representative cities. In more than three-quarters of the 40 cases (78%), annual premiums exceed \$900 or were not quoted. And no premiums are lower than \$500. By comparison, a special program for good, lower-income drivers in California – that is not subsidized either by taxpayers or by other drivers – charges annual premiums of no more than \$338, even to drivers in high-risk urban areas.

“The quoted prices, especially the nine exceeding \$2000, show that insurers either are overcharging lower-income consumers or are not interested in serving them,” said CFA’s Hunter. “Since state governments require purchase of auto insurance, state insurance commissioners have an obligation to address this issue. And the relatively new Federal Insurance Office should make the study of this problem a priority,” he added. Dodd-Frank legislation gave the FIO authority to “monitor the extent to which traditionally underserved communities and consumers, minorities, and low and moderate income persons have access to affordable insurance products.”

Table 1: Quoted Annual Premiums for a Typical Working Person With a Good Driving Record (see paragraphs above for her specific characteristics)

	Hartford	Baltimore	Chicago	Houston	Oakland
State Farm	\$949	\$1225	\$624	\$1034	\$541
Allstate	3222	3008	1654	1366	608
GEICO	1299	1971	1013	783	922
Progressive	1498	1818	886	1406	736
Farmers	2540	2806	2860	1666	827
Liberty	1913	2116	NQ	1373	1231
Nationwide	NQ	1320	826	696	952
Travelers	2364	4182	2000	1730	883

Differences Among Large Auto Insurers in Use of Education and Income in Rate-Making

Five of the ten largest auto insurers – GEICO, Progressive, Liberty Mutual, Farmers, and American Family -- apparently use education and occupation in their rate-making in most states.

GEICO uses education and occupation in its rate-making across the country. In many states, it gives equal weight to each. For example, in Hartford a factory worker would pay 28 percent more than a factory superintendent (\$1299 vs. \$1018), but a factory worker would pay 28 percent more with a high school degree than with a college degree (again \$1299 vs. \$1018). In Seattle, however, the GEICO website did not inquire about occupation but charged a factory worker with a high school degree 45 percent more than a factory worker with a college degree

(\$870 vs. \$599). And in Atlanta the website did not inquire about either education or occupation.

Progressive tends to give somewhat greater weight to education than to occupation. For example, in Louisville it charged a factory worker only one percent more than a plant superintendent (\$2390 vs. \$2357), but charged a factory worker with a high school degree seven percent more than the factory worker with a college degree (\$2390 vs. \$2228). Like GEICO, in Seattle the website did not inquire about occupation but charged progressively less as educational level increased – an annual premium of \$1134 for no high school degree, \$1042 for a high school degree, \$964 for a college degree, and \$946 for a graduate degree. And like GEICO, in Atlanta the website did not inquire about either education or occupation.

As indicated earlier, Liberty's quotes for a high school graduate were usually 10-13 percent higher than quotes for a college graduate. In one state, California, the insurer apparently also uses occupation as a rate-making factor. In Oakland, its quoted annual premium was \$1074 for a factory workers and \$892 for an executive.

Farmers' quotes made distinctions between certain professionals and civil servants and "others." In different cities, the "others" consistently were charged five percent higher rates.

American Family was difficult to research because its website required information about an actual, rather than a hypothetical, driver. However, it did ask for specific information about occupation, though it is not clear how the insurer factored that information into its rate-making.

State Farm, Allstate, USAA, Nationwide, and Travelers apparently do not use education or occupation in their rate-making, at least in the ten states studied.

"We commend auto insurers who are not using education and occupation in their rate-making," said CFA's Brobeck. "One reason insurance commissioners should address this issue is because these insurers may well feel pressured to adopt the discriminatory practices of GEICO and Progressive," he added.

Allstate's website did not ask for specific information about occupation but did require one to indicate whether one was employed or unemployed in many states, and in some states, to identify certain occupations such as firefighter or policeman, though it is not clear how Allstate used any of this information in rate-making.

Only in California did Travelers' website ask for specific information about occupation, though it is not clear how the insurer uses this information in rate-making in that state.

CFA Continues Campaign for Fair, Affordable Rates for Low- and Moderate-Income Drivers Required to Purchase Auto Insurance in All States But New Hampshire

The Consumer Federation of America is a non-profit association of nearly 300 non-profit consumer groups that was established in 1968 to advance the consumer interest through research, education, and advocacy. In the past 18 months, CFA has released a series of reports showing

that low- and moderate-income drivers in urban areas are charged high, and often unaffordable, auto insurance premiums for the minimum liability coverage required by all states except New Hampshire. These reports also reveal discriminatory practices that disadvantage drivers who are single, rent, lack continuous insurance coverage, live in moderate-income area, and in this latest analysis, have less education or work in low-paying, low-status occupations. These reports can be found on the CFA website, www.consumerfed.org.

To help make auto insurance more affordable to working people, CFA is working to curtail the use of discriminatory factors in rate-making and to create state programs, such as the one in California, that allows lower-income, good drivers to buy required liability coverage at reasonable rates.