November 18, 2021

New Jersey Legislative Latino Caucus
Senator Nellie Pou, Chair
100 Hamilton Plaza
Suite 1405
Paterson, NJ 07505
senpou@njleg.org

Re: Support for S-111/A1657-Fair Auto Insurance Rates (FAIR) Act

The Consumer Federation of America (CFA) urges the Legislative Latino Caucus to support S-111/A1657, which prohibits the use of education, marital status, homeownership status, occupation, and credit score as rating factors in auto insurance underwriting. S-111/A1657, also known as the Fair Auto Insurance Rates (FAIR) Act and sponsored by Assemblywoman Annette Quijano and Senator Nia Gill, will make auto insurance more affordable for safe drivers, improve road safety by linking premiums more closely to driving behavior than socio-economic status, and stop unfair discrimination that disproportionately harms low income people and people of color. The bill has passed the Senate and currently awaits a vote in the General Assembly.

The FAIR Act will create a fairer and more affordable auto insurance market, and promote racial and economic justice. The bill bans auto insurance companies from assigning risks to insurance rating plans based on 1) consumer education level, 2) consumer employment, trade, business, occupation, or profession, 3) consumer credit score or any information derived from their credit report, 4) consumer homeownership status (whether they own or rent their home), and 5) consumer marital status. These non-driving factors are not good indicators of someone's driving history. Instead, insurers use them as proxies for income and race, in order to subsidize the premiums offered to wealthy customers, in the hopes that these customers will purchase more policies. But consumers should pay auto insurance premiums based on factors that reflect driving habits, such as their driving record and annual mileage, rather than non-driving factors that reflect socioeconomic status.

New Jersey currently requires every driver in the state to purchase auto insurance. As a result the Legislature has an important responsibility to make sure that this product is affordable, the market is fair, and consumers are not subject to unfair discrimination. However, under current law, insurers heavily weight rates based on these personal and economic characteristics, and they do so in a manner that especially harms Black and Latino consumers in New Jersey as a result of the legacy of structural racism and ongoing systemic bias. The current system often leaves the most financially vulnerable, but safe, drivers paying the most even as they earn the least.

In 2015 Consumer Reports conducted a study and found that New Jersey drivers with good—but not the best credit—paid $199 more for auto insurance than drivers with excellent credit. Most appallingly, they found that drivers with poor credit but a clean driving record paid higher auto insurance premiums than drivers with a drunk driving conviction but excellent credit —revealing the deeply problematic priorities that can flourish under the current rules.[1]

In fall 2020 CFA acquired data on auto insurance premiums for ten large auto insurers for every ZIP code in New Jersey. CFA analyzed this data and found that using credit scores in auto insurance results in consumers paying much higher premiums, even if their driving records are perfect. Statewide, a 35 year old driver in New Jersey with excellent credit pays an average annual premium of $842.14. However, if that same driver has fair credit their average annual premium rises to $1,384.40. And if the driver has poor credit, their premium climbs even further to $2,152.54, even if their driving record remains flawless.

Racial discrimination in auto insurance is widespread through the state. New Jersey's statewide average annual premium is $1,459.69; our analysis found that drivers living in predominantly Black and Latino ZIP codes pay an average premium of $2,028.97, 139% of the statewide average. By contrast, drivers in predominantly white ZIP codes pay an average of $1,357.51, 93% of the statewide premium average.

For ZIP codes that are majority Latino, drivers with a perfect driving record and excellent credit pay an average annual premium of $1,127.26. If those same drivers have fair credit, their premiums rise to $1,918.19. And if they have poor credit, drivers in these majority Latino ZIP codes pay an average premium of $3,047.04—an increase of over $1,000.

Furthermore the COVID-19 pandemic and its resulting economic impact have caused many consumers to struggle with paying their bills, because they became unemployed, saw their hours cut, or lost business. This will lower many residents' credit scores, especially as state and federal financial protections expire, and under the current system auto insurers will respond by increasing their premiums, even if their driving records stay perfect. CFA believes it is unjust and unfair for consumers to experience premium increases because their credit scores declined due to circumstances beyond their control.

In auto insurance, the use of education and occupation is also unfairly discriminatory. African-American and Latino workers are less likely to have graduated from college, and are more likely to be employed in blue collar and service occupations or to be unemployed, all of which lead to higher rates for safe drivers. A recent Consumer Reports study as well as past studies by CFA found that several auto insurers charged substantially higher premiums—10%, 20%, even 40% or more—to good drivers simply because they work in jobs that pay low wages or do not have college degrees.[2] Consumers should not be penalized simply because they lack a college degree or have a blue collar job.

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[1] "The Secret Score Behind Your Rates." Consumer Reports. July 30, 2015. Available at https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm.

[2] "Why Your Education and Your Job Could Mean You're Paying Too Much for Car Insurance." By Kaveh Waddell. Consumer Reports. January 28, 2021. Available at https://www.consumerreports.org/car-insurance/why-

The FAIR Act's prohibition of marital status in auto insurance pricing will also help consumers. CFA's research uncovered several major insurers who increase rates for widows after their spouses pass away, a "widow penalty" that is both unfair and inhumane.[3] Premiums are often higher for single, separated, and divorced drivers, compared to married drivers as well. Again, these factors have nothing to do with driving behavior, and there is no place for them in insurance pricing.

Lastly, the bill forbids the use of a consumer's homeownership status in auto insurance pricing. Being a renter or a homeowner does not impact someone's driving record, but insurers charge good drivers substantially more for auto insurance if they are renters. In 2016 CFA found that premiums averaged about 7% higher, or $112 per year, for drivers who rent their homes.[4] This practice especially harms low and middle income consumers since they are more likely to be renters. People of color, because of past and ongoing discrimination, have lower rates of homeownership than white residents, so this pricing practice is another way in which high insurance prices grow even higher for many Black and Latino New Jersey drivers with perfect driving records.

The FAIR Act would end the use of education, occupation, marital status, homeownership status, and credit scores in auto insurance. By banning these factors, the bill will protect consumers, help reduce insurance premiums, and combat systemic racism and unfair discrimination. We ask that the Legislative Latino Caucus support this bill and work to get it passed as soon as possible.

For further information, please contact Michael DeLong at mdelong@consumerfed.org.

Sincerely,

Michael DeLong

Michael DeLong
Research and Advocacy Associate
Consumer Federation of America

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[3] "New Research Shows That Most Major Auto Insurers Vary Prices Considerably Depending on Marital Status." Consumer Federation of America. July 27, 2015. Available at https://consumerfed.org/press_release/new-research-shows-that-most-major-auto-insurers-vary-prices-considerably-depending-on-marital-status/.

[4] "Good Drivers Pay More for Basic Auto Insurance If They Rent Rather Than Own Their Home." Consumer Federation of America. February 8, 2016. Available at https://consumerfed.org/press_release/good-drivers-pay-more-for-basic-auto-insurance-if-they-rent-rather-than-own-their-home/.