

Central Carolina Insurance Agency—Consumer Newsletter



“Protecting What Matters Most To You Since 1931”

Like It or Not: Credit Ratings Can Affect Insurance Rates

At a time when economic uncertainty, a sluggish housing market, and unemployment concerns have caused more families to struggle financially, some people might be surprised to learn that an eroding credit history can also cause a rise in their auto and homeowners insurance premiums.

Consumers’ credit records may be as important as their motor vehicle records, property inspections, and other risk factors when it comes to securing affordable insurance. Many insurance companies now rely heavily on the data compiled in credit reports to determine whether they want to insure a customer and what that coverage will cost. It is important for consumers to be aware of their own credit situations even if they do not intend to borrow money any time soon. Here is a look at the mysterious practice of utilizing credit data to price insurance policies.

Insurers have long counted on statistics to help calculate insurance premiums for customers. Traditionally, factors such as age, sex, marital status, ZIP code, and driving record have been worked into equations that predict the likelihood of a payout and a relevant price for insurance.

Now the insurance industry also considers some parts of an individual’s credit history to make sure he or she pays a rate that more closely corresponds to the level of risk represented. In fact, a recent Federal Trade Commission study showed that there is a correlation between credit scores and the likelihood that individuals will file insurance claims.

Many insurers do not use scores exactly as they are reported by the major credit reporting agencies, but rather plug the data into their own models in an attempt to quantify risk. The proprietary insurance scores that result can differ greatly from company to company, and the formulas are not typically disclosed to the public.

The extent to which each individual company considers credit scores compared to other factors — like a customer’s actual driving record or accident history — can also vary greatly. A few states have enacted laws that restrict or ban some factors from being used and provide more consumer protection.

The reality is that some people will pay more for their insurance when their credit histories become a factor. On the other hand, those with spotless records will pay less. Therefore, making the effort to keep up your stellar rating or improve on a blemished one could pay off in the form of lower insurance premiums. Consider the following tips to help maintain your good credit ... and your insurability.

- Credit reports have been known to include errors that can cause unnecessary damage to your credit rating. Take the time to view your own credit report at least annually and strive to have any errors removed as quickly as possible.
- Pay bills on time and do not make too many requests for new credit in a short period of time.
- Keep credit-card balances low relative to your total credit limit.

Have you had any of the following changes?

- New car purchase
- Change in jobs
- Renovations to your home
- A birth in the family

Contact us to discuss how these events impact your personal risk program



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Insuring Teen Drivers

If you have ever seen a young driver in a hurry, blasting the stereo and distracted by a rowdy carload of friends, then it is easy to believe the studies that point out that, statistically, 16- to 24-year-olds are the riskiest drivers on the road.

It is possible that your insurance company will not require you to list your teen on your policy until he or she actually receives a license to drive alone. This could save you money during the period that your teen has a learner's permit and can only drive with a licensed adult.

If a college student takes a family car to a campus that is out of the area, parents should notify the insurance company. The change in garage location could also affect the premium. If the student owns the title on the car, he or she will probably need an individual policy.

There is a lot for mom and dad to think about when a teen slides in behind the wheel. Knowing the options may help parents deal with the extra costs — and stress — waiting for them down the road. Contact us to review your particular situation, discuss available options and implement a program that meets your needs.

What Is Term Life Insurance?

Term life insurance is “pure” insurance. It offers protection only for a specific period of time. If you die within the time period defined in the policy, the insurance company will pay your beneficiaries the face value of your policy. Term insurance differs from the permanent forms of life insurance, such as whole life, universal life, and variable universal life, which generally offer lifetime protection as long as premiums are kept current. Also, unlike other types of life insurance, term insurance does not accumulate cash value. All the premiums paid are used to cover the cost of insurance protection, and you don't receive a refund at the end of the policy period. The policy simply expires.

Term life insurance is often less expensive than permanent insurance, especially when you are younger. It may be appropriate if you want insurance only for a certain length of time, such as until your youngest child finishes college or you are able to afford a more permanent type of life insurance.

The main drawback associated with all types of term insurance is that premiums increase every time coverage is renewed. The reason is simple: As you grow older, your chances of dying increase. And as the likelihood of your death increases, the risk that the insurance company will have to pay a death benefit goes up. Unfortunately, term insurance can become too expensive right when you need it most — in your later years.

Several variations of term insurance do allow for level premiums throughout the duration of the contract. You may be able to obtain 5-, 10-, 20-, or even 30-year level term, or level term payable to age 65. An advantage of renewable term life insurance is that it is usually available without proof of insurability. Life insurance can be used to achieve a variety of objectives. The cost and availability of the type of life insurance that is appropriate for you depends on factors such as age, health, and the type and amount of insurance you need.

As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have contract limitations, fees, and charges, which can include mortality and expense charges. Most have surrender charges that are assessed during the early years of the contract if the contract owner surrenders the policy; plus, there could be income tax implications. Any guarantees are contingent on the claims-paying ability of the issuing company. Life insurance is not guaranteed by the FDIC or any other government agency; they are not deposits of, and are not guaranteed or endorsed by any bank or savings association.

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