An Auto Insurance Lifeline for Safe-Driving, Lower-Income Marylanders

By Douglas Heller, MPA

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TABLE OF CONTENTS

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Executive Summary

Too many Maryland drivers face prohibitively high auto insurance premiums when trying to comply with the state's mandatory insurance law. For these residents, the options of not driving at all or driving uninsured in violation of state law come with deep downsides: economic immobility or expensive fines. Many other low- and moderate-income residents buy auto insurance for a time but simply cannot keep up with the cost of coverage, leaving them either intermittently uninsured or severely financially stressed. Embedded in this problem lies deep-seated racial inequities and discriminatory insurance pricing that have long hampered economic mobility in several African American communities of Maryland, especially Baltimore City. Notably, due to the rate structures of many auto insurance companies, the highest premiums in the state are often charged to those least able to afford coverage.

In 10 predominantly African American ZIP codes in Baltimore City, where good drivers face annual premiums in the thousands of dollars for the bare minimum of coverage, auto insurance has been deemed unaffordable by the U.S. Department of Treasury's Federal Insurance Office. Tens of thousands of motorists with spotless driving records cannot find insurance coverage in the voluntary market, often due to a low credit score or a lapse in insurance coverage in the past. These drivers turn to the state's insurance market of last resort, known as the Maryland Auto Insurance Fund, or MAIF. There they will find policies at high premiums that have been climbing rapidly in recent years. These price hikes accumulate on top of the premium increases that MAIF and voluntary market insurance companies imposed in 2011 after lawmakers increased the minimum coverage drivers must maintain. Under that change, Maryland now has the fifth-highest minimum auto insurance coverage requirement in the nation.

The consistently expensive premiums for motorists in some communities has been a much-discussed and debated topic among policymakers, but, despite a variety of "carrot and stick" efforts to reduce the number of uninsured motorists, approximately 12% of drivers on Maryland roads remain uncovered. The state needs new approaches to this persistent problem in order to improve economic opportunities, address inequities, and reduce the number of uninsured drivers in the state. In short, hundreds of thousands of Marylanders need an auto insurance lifeline to help them confront the crisis of auto insurance unaffordability.

The California Low Cost Automobile Insurance Program offers a model that could be adapted to the Maryland market. This program, which has covered more than 150,000 low-income Californians, makes a bare bones auto insurance policy available to qualifying good drivers for less than $500 per year, even in traffic-intense Los Angeles. Although there are no subsidies of these policies, the premiums remain low due to the unique structure of the program:

- Policies are only available to safe drivers;
- The amount of coverage provided is less than the minimally required coverage otherwise mandated by California law; and
- The rates are established to cover claims, expenses, and agent commissions but not to provide a profit for insurance carriers, which are required to participate in the state's residual market, sometimes called the market of last resort.

This paper details key aspects of the auto insurance affordability problem in Maryland and explores the California Low Cost program as a model for the state. It identifies challenges faced and lessons learned from the California experience and suggests approaches and adaptations to the California program that would be appropriate for the Maryland market. It also considers and addresses potential public policy concerns, particularly related to the impact of allowing some drivers to purchase auto insurance with lower liability limits than state law requires.

The creation of a Maryland Lifeline Auto Insurance program for lower-income, safe drivers, this paper concludes, will not likely eradicate the whole of the uninsured motorist problem, but it would confront discriminatory pricing in the market and provide an important opportunity for many thousands of Maryland drivers to improve both their literal and economic mobility.

Glossary of Terms

Clean driving record – The driving history of a driver without any prior accidents or moving violations in the prior three years.

Liability insurance – Auto insurance coverage that pays for the injuries and damages to another person or another person's property that was caused by the insurance policyholder.

Minimum limits policy – An auto insurance policy that provides no more coverage than is required by state law.

Personal Insurance Protection (PIP) – Insurance coverage for medical expenses and lost wages of the insurance policyholder in the wake of an accident, regardless of fault.

Rating factors – In auto insurance pricing, the variables that insurance companies use to determine the specific premium charged to an individual driver. These variables often include driving-related elements such as driving safety record and miles driven and, depending upon state law, nondriving characteristics, such as a driver's credit history or occupation.

Residual market – A statutory auto insurance market of last resort that states create to make insurance available to drivers who are not able to obtain coverage in the voluntary market.

Voluntary market – The traditional private auto insurance market, where most drivers purchase their auto insurance from private insurance companies.

Introduction

With hundreds of thousands of motorists driving on Maryland roads without car insurance,[1] millions of dollars of penalties accruing for uninsured driving,[2] African American communities facing the highest premiums in the state,[3] and untold numbers of drivers struggling to keep up with the high cost of coverage,[4] state policymakers need to improve availability and affordability of auto insurance. Efforts in this regard should be at least as strong as enforcement of the state's mandatory auto insurance laws. One approach to affordability is to create a lower-liability-limits insurance policy for good drivers with low- and moderate-incomes. Offering auto insurance at a significantly lower-than-market rate to low-risk drivers whose needs are not well-met by the existing markets would provide new economic opportunities[5] for many Marylanders, address racial inequities connected to the cost of auto insurance, and create savings and added security for all drivers.[6]

Every Maryland driver must purchase automobile insurance by law, and survey data show that most Americans believe it appropriate to require insurance coverage of drivers.[7] But the legal mandate and public interest in covering every driver has not been enough to ensure that all motorists can afford to purchase the protection. That disconnect has been the focus of numerous state and federal inquiries[8] and research by nonprofit consumer organizations.[9] Moreover, the statutory mandate that all drivers purchase insurance creates an obligation on policymakers to ensure that residents' compliance is feasible even for very low-income Marylanders.

Reconciling the public policy goal of compulsory auto insurance—namely, ensuring financial responsibility for damages caused by accidents—with the challenge of the numerous draws on low-income drivers' limited resources as well as the need to address dramatic premium disparities for African American drivers, requires a range of public policy tools.[10] It is unlikely that any one approach will singularly resolve the contest between financial responsibility and financial reality, so policymakers must assess the incremental value of each tool as a piece, rather than the whole, of a solution. As with Maryland's strict penalties for driving uninsured,[11] its amnesty program for those burdened by uninsured driving fines,[12] and the state law allowing consumers to waive their Personal Injury Protection,[13] a new low-cost program cannot be expected to single-handedly eradicate uninsured driving or address the circumstance of every low-income motorist.

However, resolving tough public policy challenges usually involves confronting difficult trade-offs.[14] In a reduced-limits auto insurance program, policymakers must concede some protections offered by higher levels of coverage in exchange for affordability. The question that arises is whether the increase in insured drivers exceeds and outweighs the prospect of some accidents having less coverage than would have otherwise been available. This article will present evidence that a limited coverage program meets that important threshold and would address a series of important public policy problems that neither penalties nor amnesty—or the private passenger auto insurance market—have alone cured.

A low-cost plan would offer more affordable coverage for some number of currently uninsured drivers who have been forced to choose between driving illegally or not driving at all. A subset of beneficiaries includes intermittently insured drivers. They carry coverage for a few months or a year but get canceled for missing a premium payment when confronted with an unlucky break or unanticipated expense.[15] At any given time these lower-income drivers might be among the pool of insured—a testament to their preference for compliance—and a low-cost policy would offer a lifeline toward continuous coverage. It would, in particular, provide affordable insurance to drivers living in the poorest, predominantly African American

12.4% of Maryland motorists drive without the state-mandated automobile insurance coverage.

neighborhoods that face some of the highest premiums in the state. The program would also reduce the number of uninsured drivers, which would, in turn and over time, lower the cost of auto coverage for all Maryland drivers.[16] Finally, a low-cost program can be offered with no cost to taxpayers and no cross-subsidization from other insured drivers, and without requiring an insurer writing these policies to do so at a loss.[17] In that regard, the program would be a win-win-win.

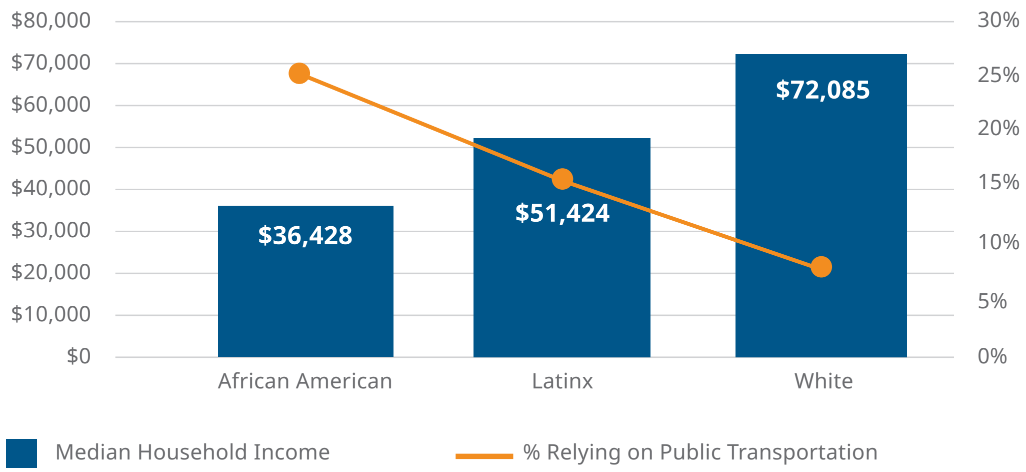
PART I. THE PROBLEM

For many Maryland residents, the high cost of auto insurance makes vehicle ownership either prohibitively expensive or terribly tenuous. This matters because, among other reasons, access to a vehicle significantly improves economic opportunities for lower-income Americans, and living without a vehicle compounds the financial, familial, and social challenges of poverty.[18] As Taylor and Ong explained, "[t]he importance of the automobile in providing employment access… can hardly be overstated."[19]

Seen through the lens of Marylanders who do not have their own car, the value of vehicle ownership is unmistakable. Baltimore residents who use public transit to get to work are nearly three times more likely to live below the poverty level than people who drive themselves to work, and the overall median income of Baltimoreans with access to a vehicle is 69% higher than that of residents who rely on public transportation.[20] A similar, if not as extreme, impact is found in Prince George's County.[21] The reliance on public transportation is also quite different when considering race and ethnicity, with a quarter of Baltimore's African American residents and 16% of Latinx using public transit, while only 8% of white residents depend on buses and trains.[22] The income distribution follows similar patterns,[23] as shown in Figure 1.

This is not surprising. Bullard (2003) explains that "private automobiles provide enormous employment access advantages to their owners,"[24] an advantage quantified in a 2015 federal report that found car ownership to be

Figure 1. Median income and reliance on public transportation in Baltimore City, by race and ethnicity

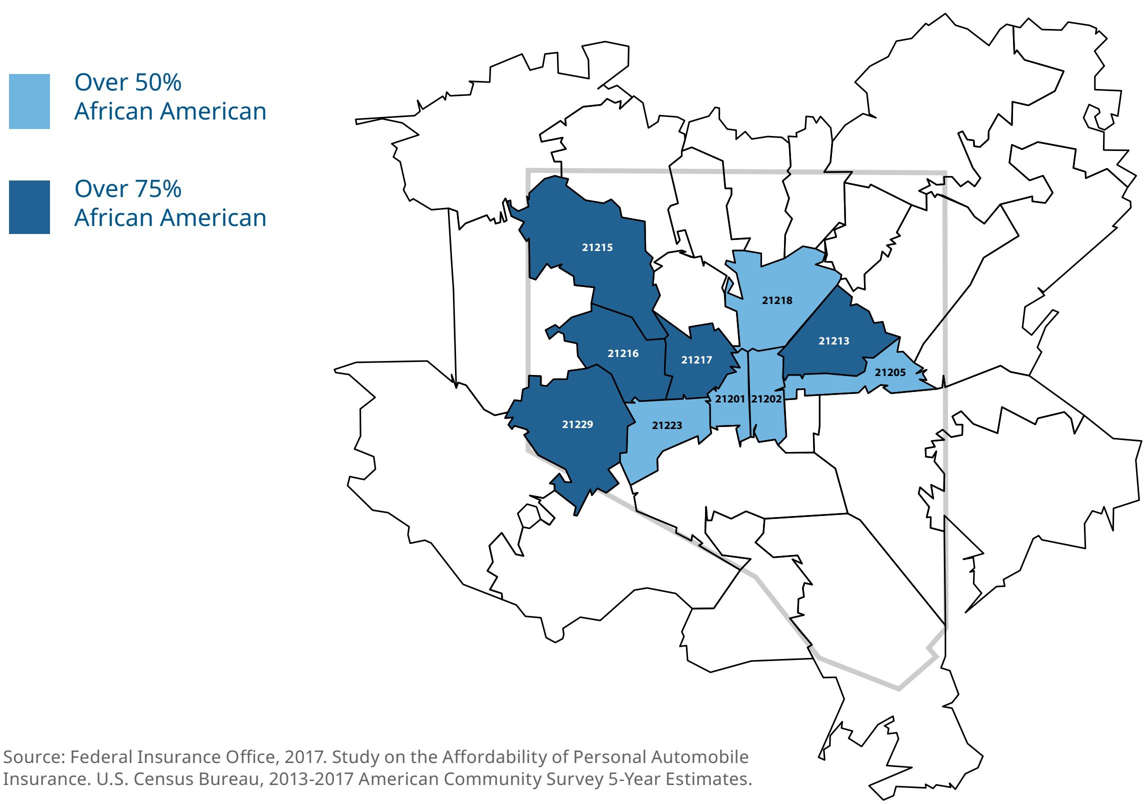


a strong predictor of future income. Indeed, "having one car per adult in the household would translate into next-year income gains of $3,552 for the full sample, $2,258 for families in poverty, and $1,851 for low-skill families."[25] The mobility afforded by a car translates into more than income—family needs, recreation, and all manner of daily life are made significantly easier with an automobile.[26]

For many low-income residents of Maryland, what stands squarely in the way of the socio-economic opportunities and advantages provided by car ownership is the cost of auto insurance. As Comings and Allison (2017) illustrate, an increase in the cost of auto insurance between 2005 and 2015 was the chief reason that the cost of car ownership nationally did not decrease for low-income individuals, even as gas prices and financing costs fell.[27] In fact, in Baltimore, according to the U.S. Department of Treasury's Federal Insurance Office (FIO), in 2016, there were 10 ZIP codes—home to over 334,000 residents—in which average auto insurance premiums exceeded 2% of the ZIP code's median household income, a level FIO deems unaffordable.[28]

Notably, auto insurance unaffordability disproportionately impacts African American Marylanders. The 10 Maryland ZIP codes identified by FIO as having unaffordable auto insurance rates—all Baltimore City ZIPs—are each predominantly African American, as Figure 2 illustrates. In total, 76% of the residents of these 10 communities are African American, which is more than twice the proportion of African American residents as the 21 "affordable" ZIP codes in, or partly in, Baltimore City, using the FIO gauge. While data regarding levels of uninsured motorists or citations for driving uninsured are not available

Figure 2. Auto Insurance Premiums are Considered Unaffordable in 10 Predominantly African American ZIP Codes[29]



Source: Federal Insurance Office, 2017. Study on the Affordability of Personal Automobile Insurance. U.S. Census Bureau, 2013-2017 American Community Survey 5-Year Estimates.

at the ZIP code level, it is almost certain that both uninsured driving and the resulting penalties also disproportionately impact African American Marylanders. Addressing the high cost of auto insurance in Maryland, then, must be recognized as critical to racial equity in addition to serving as a strategy for economic development.

A 2015 study by Consumer Federation of America reveals just how severe a problem price discrimination is for Baltimore's African American residents. "Average premiums in predominantly African American ZIP codes in the Baltimore-Towson, MD CBSA [Core-based Statistical Area] were nearly double, or 94 percent higher than, the average premiums in its predominantly white communities."[30] The Baltimore-Towson region, in fact, exhibited the most significant premium difference between predominantly African American and predominantly white communities among all CBSAs in the nation.

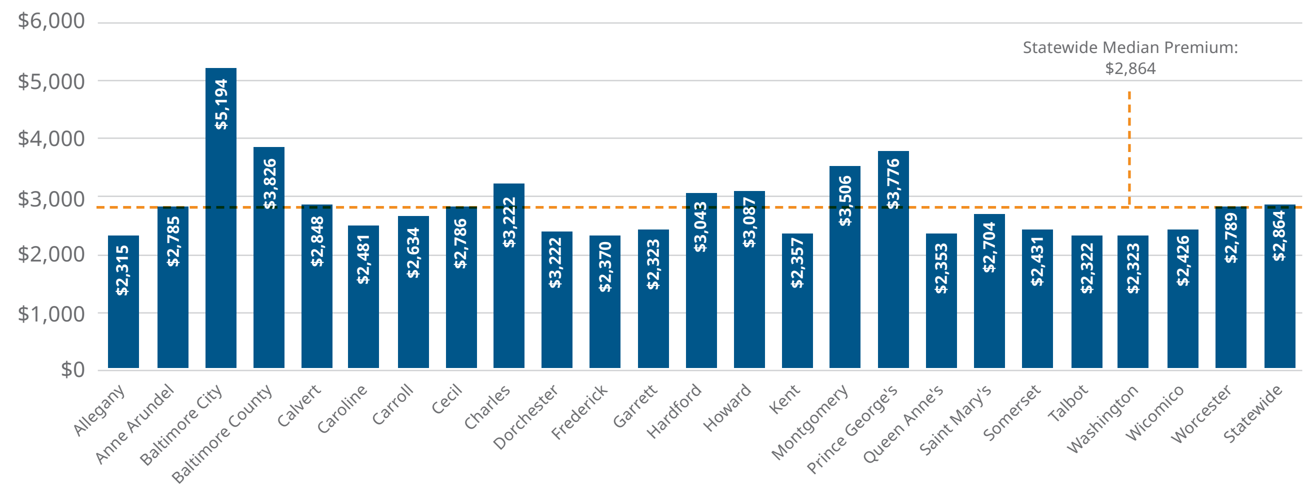
The high cost of mandatory auto insurance coverage

Maryland, as with all states but New Hampshire, requires drivers to purchase a minimum level of liability insurance. In 2011, Maryland increased the minimum amount of auto insurance drivers must purchase to $30,000 per injury, $60,000 of coverage for all injuries, and $15,000 of property damage per accident (commonly referred to as "30/60/15").[31] The state also requires motorists to purchase Uninsured Motorist coverage and Personal Injury Protection (PIP) at an additional cost, though it allows drivers to waive the PIP coverage.

Penalties for noncompliance with the coverage mandate (i.e., driving uninsured) include an initial $150 fine, which can escalate to $2,500 if the driver is uninsured for 12 months, and the suspension of a driver's vehicle registration.[32] But for lower-income low-risk drivers with unblemished driving records, the threat of steep fines often proves less persuasive than the high cost of auto insurance, especially in Baltimore City and Baltimore and Prince George's counties, where good-driver premiums significantly exceed state averages, as shown in Figure 3.

The need for affordable insurance policies in Maryland, where state law mandates coverage, comes into sharp relief when considering the actual prices faced by drivers in the poorest communities. Online premium quotes[34] from two of Maryland's largest insurers, GEICO and Progressive, for a 38-year-old single woman

Figure 3. Median annual premium by county for a couple with clean driving records to insure two vehicles with a minimum-limits policy plus comprehensive and collision coverage[33]



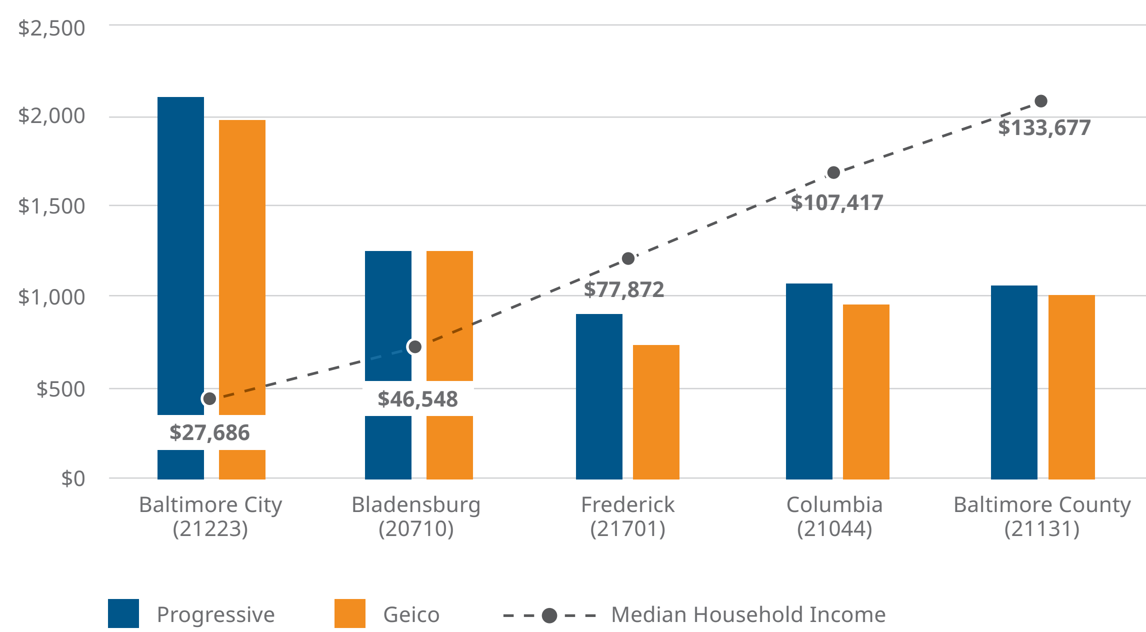
who works as a retail cashier indicate a fraught relationship between the cost of complying with Maryland's mandatory insurance law and geography. As illustrated in Figure 4, premiums for minimum-limits coverage for a driver with a clean record are much lower in ZIP codes where incomes are much higher. In Baltimore City, insurers charge nearly double what they charge in a Baltimore County suburb 20 miles to the north. Indeed, at an average premium of $171 per month, the Baltimore City driver working a full-time minimum wage job would spend about 10% of her $1,751 monthly pre-tax income on auto insurance.

A relationship between the premium and the race of residents of a ZIP code is also evident. Figure 5 shows that the average premium among the two insurance companies appears to correspond with the percentage of African Americans living in the ZIP Code, with the exception of Baltimore County (21131), where rates are somewhat higher than the less-white communities of Frederick and Columbia.

Rates across Maryland do not vary strictly with income and race, but a general and disturbing pattern is apparent. As is illustrated by these two examples, Marylanders with perfect driving records seeking the minimum insurance required under state law will often be charged hundreds—if not thousands—of dollars more simply because they live in poorer, more heavily African American neighborhoods.

For younger drivers, the cost of compliance is even more alarming. A 23-year-old male driver with no violations or accidents on his record, for example, faces a statewide median premium of $2,719 per year, according to the 2019 Maryland Insurance Administration Rate Comparison Guide, to purchase the minimum allowable liability insurance along with comprehensive and collision coverage (required if he has a car loan or lease). However, as shown in Figure 6, that same safe driver faces a median price of $5,219 if he lives in Baltimore City (21218)—about one-quarter of the annual pre-tax earnings of a full-time minimum wage worker.

Figure 4. Annual premium quoted for a minimum-limits policy for a 38-year-old safe driver and ZIP median income



A minimum wage job, of course, doesn't necessarily mean a full-time job. There are approximately 38,500 working residents in Baltimore who earn less than 150% of the federal poverty level,[35] or less than approximately $19,000 annually ($39,000 for a family of four).[36] For very low-income individuals and families, and many others with higher but still quite low levels of income, an outlay of several thousand dollars a year to purchase auto insurance is infeasible or unsustainable.

The impact of nondriving rating factors

Many factors contribute to the cost of auto insurance and to its variability among drivers. These include the level of coverage mandated under law, state laws and regulations governing insurer ratemaking and pricing practices,[37] traffic density and vehicle miles traveled,[38] medical and auto repair costs, and infrastructure quality, among others.[39] As the premium data above for different counties in Maryland indicate, the use of geographic factors also has direct implications for the cost of coverage.

Additionally, and of significant consequence for lower-income and African American residents, Maryland allows insurance companies to use several "nondriving" rating factors as proxies for income and, indirectly, race, such as a driver's occupation, level of education, home ownership status, marital status, gender, and prior insurance coverage. These factors are used by varying degrees among insurers and often result in blue collar workers paying higher premiums than white collar workers; high school graduates paying more than college graduates; and renters, unmarried people, women, and drivers with lapses in prior insurance coverage paying more than homeowners, married drivers, men, and drivers who have continuously maintained auto insurance.[40]

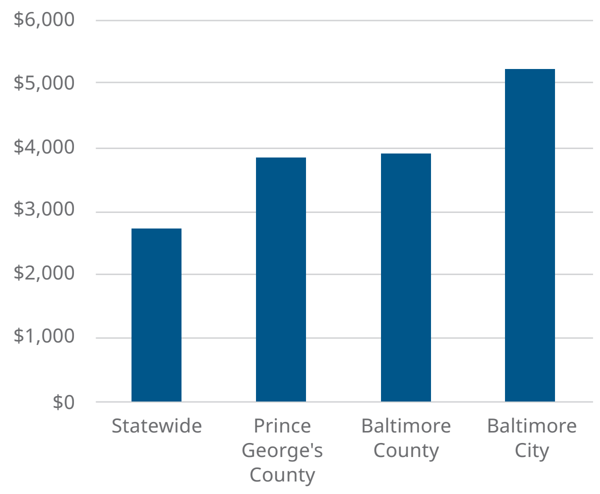
Although Maryland law prohibits insurance companies from using credit history in setting homeowner insurance rates, auto insurers are permitted to use a driver's credit history in determining premiums. According to Consumer Reports, Maryland drivers with clean records and excellent credit paid $1,145 on

Figure 5. Average premiums and percentage of African American residents

Zip Code	Percentage African American	Average Premium*
21223	73%	$2,048
20710	58%	$1,262
21044	28%	$1,020
21701	11%	$824
21131	1%	$1,045

*Average of Geico and Progressive premium quotes retrieved

Figure 6. Median annual premium for a 23-year-old with a clean driving record



average for auto insurance, while the same safe driver with poor credit paid $2,904 for the same coverage, or 154% more. In fact, the clean-record Marylander with poor credit pays about 129% more on average than a driver with excellent credit who had been convicted of drunk driving.[41]

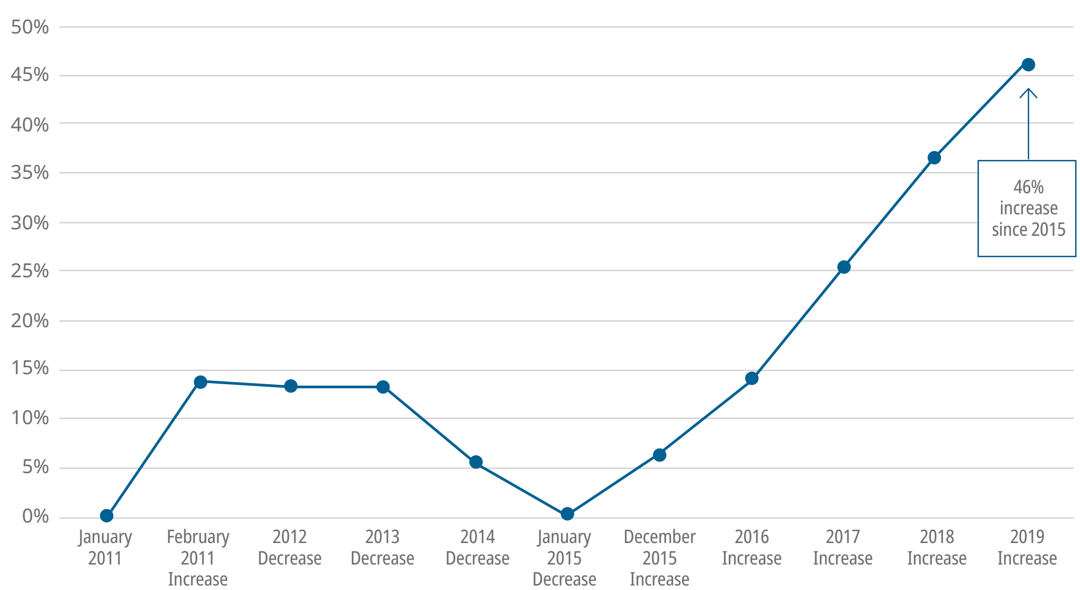
While the implication of these nondriving, economic status indicators for lower-income drivers is clear, the implication for African Americans is equally profound. In Maryland, homeownership rates for African Americans are lower than for whites, high school graduation and college degree attainment are lower for African Americans, as is median income, suggesting they are more likely to be employed in occupations saddled with higher insurance premiums.[42] Taken together, the use of nondriving rating factors means that, on average, African Americans with safe driving histories will pay more for auto insurance than their white counterparts, simply because of these socio-economic characteristics.

Atypical reliance on the residual insurance market in Maryland

Another factor in the high cost of auto insurance for lower-income Maryland drivers is the large number of safe drivers served by the state's residual auto insurance market and the high price of these residual market policies,[43] which are sold by the statutorily created Maryland Automobile Insurance Fund (MAIF) under the market name "Maryland Auto." Every state establishes a residual market to serve the highest-risk drivers—those who can't get insurance in the private market—but Maryland's market is among the largest.[44]

Typically, a residual market customer has a bad driving record, but Maryland Auto serves a much broader base and a larger number of good drivers than most states. In 2018, Maryland Auto issued 61,303 policies, which included 30,509 applicants with clean driving records.[46] Compare that to the fact that 80% of remaining states had residual markets with fewer than 300 customers total in 2015 (the

Figure 7. Maryland Auto rate increases 2011-2019[45]



Taken together, the use of nondriving rating factors means that, on average, African Americans with safe driving histories will pay more for auto insurance than their white counterparts, simply because of these socio-economic characteristics.

most recent year for which countrywide data are available). Only three other states had more than 10,000 customers in their residual auto insurance pools.[47]

Under Maryland law, private insurance companies are not required to sell a policy to every good driver seeking coverage[48] and can refuse to underwrite drivers who have had a lapse in their automobile insurance coverage or poor/no credit history, even if the lapsed or low-credit driver has an unblemished driving record. These drivers, with two refusals from the private market, can turn to the residual carrier for coverage. On its website, Maryland Auto confirms that many of its customers are not traditional “high-risk” customers:

"Is Maryland Auto just for bad drivers?

No. In fact, 60% of the drivers we insure have “clean” driving records with one or no points on their licenses. While we do provide coverage for drivers who have been cancelled or denied based on their driving record, many of our policyholders have been cancelled or denied because of lapses in coverage or credit issues."[49,50]

Further, for the drivers whose credit history or prior lapses in insurance coverage force them to rely on MAIF, premiums have been escalating over the past several years. After a rate hike in 2011, premiums began to fall as both annual mileage and accidents declined in the wake of the great recession.[51] However, beginning in December of 2015, MAIF imposed a series of annual rate hikes on customers ranging from +6.4% to +10.2%, so, as Figure 7 illustrates, premiums for its customers were 46% higher as of July 2019 than they were just four years prior.

State efforts to reduce the rate of uninsured motorists

As the high rates in the private and residual markets have pushed many lower-income drivers toward uninsured status, Maryland lawmakers have made efforts aimed to push and pull drivers back into the market. Most familiar is the prospect of fines for noncompliance. Driving without coverage can also lead to suspension of vehicle registration and vehicle impoundment.

To encourage insurance purchase in recent years,[52] the state has adopted the following strategies:

- An option to waive PIP coverage; and
- The creation of an amnesty program that allows certain drivers to waive 80% of their outstanding fine if they purchase auto insurance.

While these efforts have provided relief to some drivers, neither the carrot nor stick approach has solved the problem. According to data from the initial amnesty effort, in which debt relief was exchanged for purchasing coverage, the program’s 3.49% participation rate meant that 6,714 qualifying drivers agreed to pay down their remaining fine and purchase insurance.[53] That is, of course, better than zero, but with an estimated uninsured motorist rate of 12.4%, there are about 500,000 uninsured drivers in Maryland in need of more help—and many thousands more whose tenuous coverage status deserves attention.

Figure 8. Impact of 2011 increase to minimum coverage limits on premiums for select insurers

Company	Bodily Injury Liability Premium Increase for 20/40 to 30/60 Limits Increase	Uninsured Motorists Bodily Injury Premium Increase for 20/40 to 30/60 Limits Increase
GEICO Indemnity[54]	13%	51%
State Farm[55]	5.1%	43%
Maryland Automobile Insurance Fund (MAIF)[56]	13.1%	8.9%

A countervailing force: The 2011 increase to minimum limits

In 2010, HB 825 raised the minimum bodily injury liability limits required of all drivers in Maryland by 50%. Instead of insurance covering $20,000 per injury and $40,000 for two or more injuries, Maryland motorists now must insure in amounts of $30,000 and $60,000, respectively. Irrespective of the merits of increasing coverage, requiring all drivers to purchase more coverage raised the minimum amount Marylanders must pay for insurance to lawfully drive. Figure 8 illustrates the rate hikes that drivers encountered when HB 825 took effect in 2011.

Maryland drivers now carry the nation's fifth-highest minimum limits liability coverage, with a price tag that has compounded the already high cost of auto insurance facing many lower-income drivers in Maryland.

PART II. THE CALIFORNIA LOW-COST AUTO INSURANCE PROGRAM

The social and economic implications of auto insurance unaffordability requires a search for solutions. One approach to consider is the California Low-Cost Automobile Insurance Program (CLCA), which is operated through California's state residual insurance market, the California Automobile Assigned Risk Plan (CAARP).

The CLCA allows low-income drivers with a safe driving history to purchase a bare bones insurance policy with coverage of $10,000 per injury, $20,000 for two or more injuries, and $3,000 for property damage from a single accident (10/20/3), which is below the state's otherwise mandatory minimum liability limits.[57] In 2019, the annual CLCA premium for all but recently licensed drivers is below $500 in Los Angeles and less than $250 in some California counties. Even though the policy limits are two-thirds of the state minimum, state law recognizes CLCA policyholders as complying with California's financial responsibility requirement. To qualify, drivers must have no more than one point on their driving record and an income level that is below 250% of the federal poverty level. They can apply through one of 1,700 California agents certified to sell this policy or directly online (Figure 9), and drivers can usually be insured and allowed to drive on the day of application.

First available as a pilot program in Los Angeles and San Francisco counties in 2000,

In 2019, the annual California Low-Cost Automobile Insurance Program premium for all but recently licensed drivers is below $500 in Los Angeles and less than $250 in some California counties.

the CLCA has since provided coverage to more than 150,000 low-income Californians.[58] With almost 21,000 policies in force as of June 2019, the program's success in addressing a legal and financial conundrum faced by many safe but impoverished drivers is moderated by the scale of unmet need in California. While a significant percentage of the millions of uninsured motorists in California were never meant to be served by this program (because of their driving safety record or income), it is likely that a sizable portion of the remaining uninsured in the state could be covered by the CLCA.

Still, even though it has room to grow, the program has already had a worthy impact in California that justifies implementation elsewhere. Between the number of people insured through the program, including those who later transitioned to private market policies, and the number of people whose awareness of insurance requirements and options was raised by the program's outreach campaigns and marketing, the CLCA program led to as much as a two percentage point drop in the level of uninsured drivers.[59]

Figure 9. MyLowCostAuto.com

Moreover, there are many people for whom the CLCA has been a key stepping stone toward financial security. As one insurance agent explained:

"I sold a low-cost policy to a young mother who was living in a shelter for battered women. She needed transportation to get to her college classes, also to a part-time job, and to get her kids to school. Access to that low-cost auto insurance, and the ability for her to get around lawfully, made all the difference. She went on to become a music teacher and, also, she was able to move into the standard insurance market and buy a higher limits policy. That experience helped me see how this program could really impact people's lives."[60]

Another agent recounted this CLCA success story:

"I had a call from a gentleman who was temporarily living in a shelter/church in Ventura. He had been 'homeless' for about a year after he lost his job and went through a divorce…He had his car parked in the church parking lot and didn't want to drive for fear of getting pulled over. I drove out and met with him and remember he paid mostly in coins. In fact, he was short the down payment, but I personally covered it for him and told him to just pay it forward some other day. Well, fast forward three years later and last year, he called the office and expressed his gratitude and appreciation. He told me he was

doing great and that if it wasn't for the program, he would not have been able to legally drive around looking for work. He was so appreciative and thankful that he told me that he wanted to pay it forward and went back to the church to give someone else the money to cover the down payment for a low-cost policy."[61]

These anecdotes, of drivers turning to CLCA at economically vulnerable times, are borne out by key data compiled by CAARP for the California Department of Insurance:[62]

- 93% of applicants who receive a CLCA policy were uninsured at the time of the application.
- 81% of policyholders have a household income at or below $20,000 per year.
- 78% of vehicles in the program have a value of $5,000 or less.

Figure 10 provides another explanation of the CLCA's utility. Between 2012 and 2018, CLCA insurance covered more than $24 million in claims for accidents caused by program participants. As virtually all CLCA policyholders were previously uninsured, these accidents would likely have been uninsured without the program.

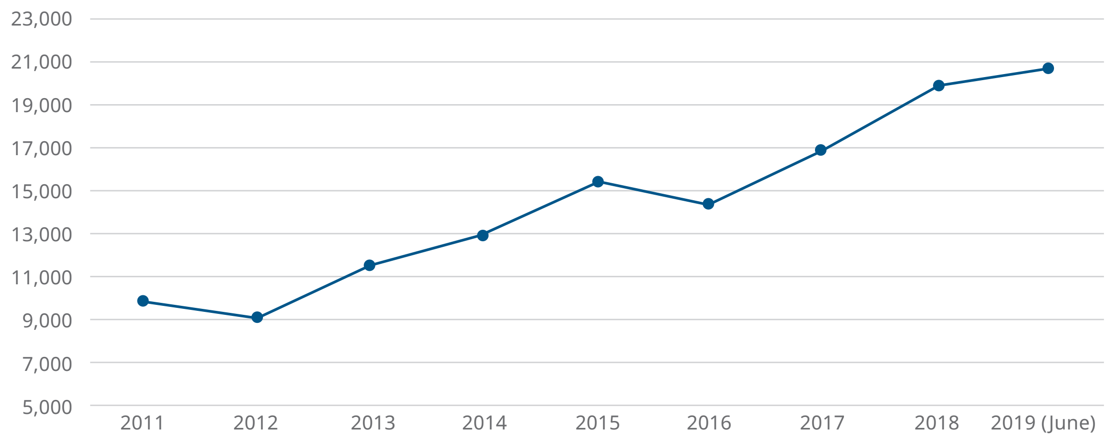
Of related importance, data show that bodily injury claims resulting from accidents by CLCA policyholders average about $6,000, which is significantly below the policy's 10/20 limits. Similarly, property damage claims average approximately $1,850, again well below the $3,000 limit of the policy.[64] Because CLCA policyholders cannot have more than one point on their motor vehicle records, accidents in the program appear to be less frequent and less severe than in the wider auto insurance market. This helps put to rest one of the earliest concerns articulated by program skeptics, namely, that the limited coverage would regularly leave accident victims insufficiently compensated if the at-fault driver carried a CLCA policy. While there will be bad accidents that exceed the coverage available in any market, the CLCA data show that most accidents do not exceed the coverage provided by these lower-limits policies.

Finally, the program has seen consistent growth year over year, despite a largely stable statewide advertising and outreach budget of about $1 to $1.4 million annually.[65] As Figure 11 illustrates, since 2011, the number of policies in force at the end of the year has more than doubled, leaving the ratio of advertising and outreach expenditures per

Figure 10. CLCA-covered losses 2012-2018[63]

Coverage	Number of Claims	Incurred Losses
Bodily Injury	1,724	$12,177,924
Property Damage	5,754	$11,032,232
Medical Payments [akin to PIP] (2016-18 only)	176	$163,440
Uninsured Motorist	118	$742,044
Total		**$24,115,640**

Figure 11. CLCA policies in force at end of year



policy at about $57 in 2019. For comparison, California's fifth-largest auto insurance company, Interinsurance Exchange of the Automobile Club (also known as AAA of Southern California), reported a 2016 advertising budget of $66 million and 1.2 million auto insurance policies.[66] The CLCA's rate of customer acquisition is not far off the pace set by the already very well-known Auto Club.

The structure of the CLCA

The CLCA offers eligible drivers the opportunity to purchase a 10/20/3 liability auto insurance policy deemed compliant with the state's financial responsibility law. To purchase the policy, a driver must meet the eligibility requirements described in Figure 12.[67] The policies are underwritten by private market participants[68] and sold through the MyLowCostAuto.com website or by certified agents who receive a commission of 12% of policy premium, but no less than $50 per policy.

Setting CLCA rates

The foundational premise of the CLCA is that a lower-limits policy should provide low-risk drivers the opportunity to comply with the insurance mandate as inexpensively as possible. The governing statute includes several rules aimed at keeping rates low without burdening the insurers underwriting the coverage, other drivers, or taxpayers.

Under the statute and implementing rules, rates are subject to annual adjustment in order to ensure that rates are as low as possible while reflecting the actual losses incurred under the program; reasonable loss trends; and the cost of administration, including loss adjustment costs and agent commissions. The overall rate is reduced by the anticipated investment income earned on CLCA premiums and does

Figure 12. Key CLCA eligibility requirements

Safe Driver: No more than one point on motor vehicle record

Low-Income: Income cannot exceed 250% of federal poverty level

Vehicle Value: Automobile's depreciated value cannot exceed $25,000 not include a profit factor. That is, the rates are set with a break-even objective for insurers. A crucial feature of the CLCA program's ratemaking rules is that any rate change is subject to a public hearing conducted by the State Department of Insurance as well as a review by a Department actuary. This process ensures transparency and accountability in the ratemaking process and that the program remains sustainable and relatively affordable.

Pricing individual CLCA policies

The state's counties are divided into five geographic rating territories, and each county is placed into one of the five territories based on countywide loss data. Within each of the five territories there is no geographic price variation, and all premiums fall between $247 and $490 for the basic 10/20/3 CLCA policy. Customers can add Medical Payments coverage that pays $1,000 of their own medical costs associated with an accident regardless of fault as well as Uninsured Motorist coverage. Beyond the base rate offered to most drivers, there are also surcharges for drivers with less than three years of licensure and for unmarried drivers under 25 years old.[69]

To protect against variable and potentially much higher costs, the CLCA program prohibits the use of private premium financing (in which a customer receives a loan to cover the cost of coverage).[70] Instead, all CLCA policies may be purchased on an installment basis with a 20% down payment and seven monthly payments. More than 72% of CLCA customers pay on an installment basis.[71] As a result, for less than $100 down and seven monthly payments of $60, good drivers in one of the most congested cities in America[72] can be insured and driving legally; drivers in other large California cities pay even less, as shown in Figure 13.

Efforts to raise awareness of CLCA and overcome program challenges

More than 150,000 CLCA policies have been issued, paying tens of millions of dollars in claims and giving peace of mind to safe drivers who had previously driven illegally or not been able to drive at all because they were priced out of the insurance market. Many more policies, though, could be sold.

Figure 13. CLCA premium options in California cities with more than 400,000 residents

Coverage	Pay in Full	Pay in Installments (amount includes installment fee)*
Los Angeles/Long Beach	$490	$98 down + 7 installments of $60
Oakland/ San Francisco/ San Jose/ Sacramento	$321	$64 down + 7 installments of $41
San Diego	$267	$53 down + 7 installments of $35
Fresno	$247	$49 down + 7 installments of $32

*Figures rounded to nearest dollar

For less than $100 down and seven monthly payments of $60, good drivers in L.A., one of the most congested cities in America, can be insured and driving legally.

Several recent changes to program rules—such as allowing credit card and debit payments, and reducing some of the administrative barriers that have been difficult for program customers—have either taken effect or are in the process of being integrated and are expected to help grow the program. Most importantly, a 2014 revision to the CLCA law allowed the policy to be sold online, resulting in 16% and 19% year-over-year growth in 2017 and 2018, respectively (the first two full years that CLCA policies could be purchased without visiting an agent).

An efficient process, however, does not help a low-income driver who does not know that there is a low-cost auto insurance program in the first place. In an effort to raise awareness, California law includes a 5 cents per insured vehicle assessment collected from insurers "to notify insurers and other members of the public about the existence of any low-cost automobile insurance program."[73]

Using this revenue, the Department of Insurance has typically budgeted between $1 million and $1.4 million annually over the past decade, with most of the money devoted to an outreach and education campaign managed by a contracted marketing firm.[74] These expenditures likely constitute the primary source of low-income driver awareness of the CLCA.

These efforts do not reach nearly enough potential customers, and certainly not with sufficient repetition, to meet the challenge of engaging the many hundreds of thousands of eligible Californians. First and foremost, reaching low-income consumers is a challenge not unique to the auto insurance market. Energy-efficiency programs for low-income individuals[75] and health insurance enrollment, often with significant marketing and outreach budgets,[76] have also faced a variety of challenges relating to financial literacy, trust in institutions, competing financial pressures and priorities, and cultural and linguistic hurdles, among others. Amplifying the problem is the scope and scale of the marketing challenge in California, a state with nearly 40 million residents, five major media markets across more than 160,000 square miles, and 11 different languages spoken by at least 50,000 residents each.[77]

As noted above, the $57 per policy acquisition cost is not itself inefficient, but the $1 million to $1.4 million a year may simply not be enough money to reach low-income Californians. For now, however, that is what is available to the California program, and the CLCA continues to grow and insure previously uninsured drivers despite the relatively low investment in public awareness and marketing.

PART III. A LIFELINE (LOW-COST) AUTO INSURANCE PROGRAM FOR MARYLAND

Too many Maryland drivers struggle with the cost of auto insurance, particularly in Baltimore City and Baltimore, Prince George's, and Montgomery counties.[78] Over 60,000 drivers, nearly three-quarters of whom live in those same counties,[79] turned to the high-cost policies sold by Maryland Auto, the state's auto insurer of last resort in 2018, and 30,509 of those drivers had clean records according to MAIF.

Lower-income Marylanders need an affordable auto insurance option. Fortunately, for two

Over 60,000 drivers, nearly three-quarters of whom live in Baltimore City and Baltimore, Prince George's, and Montgomery counties, turned to the high-cost policies sold by Maryland Auto, the state's auto insurer of last resort in 2018.

key reasons, the state is well-positioned to readily adopt and adapt the California Low-Cost Automobile Insurance program to create a Maryland Lifeline Automobile Insurance program (MLAI).

1. Because the state recently increased the required minimum limits to among the highest in the nation, a lower-priced reduced-limits policy could be offered with coverages still higher than several states' minimum coverage requirements.[80]

2. Because of the unique structure of Maryland's residual market, there is already an insurer in place—Maryland Auto—that could underwrite and service an MLAI policy.

Identifying potential concerns

As was the case when California began to consider its CLCA, there are two related concerns that should be addressed. First, there may be a concern that lowering the liability limits required of eligible Maryland drivers will leave accident victims insufficiently compensated, and second, drivers who currently purchase standard market coverage would "drop down" to the lower-limits coverage even though they had previously been in compliance with the higher coverage mandate.

With respect to the first concern, unless a state requires that drivers purchase unlimited liability coverage, there will always be some accidents that are more severe and costly than the policy limits of the at-fault driver. The 2010 legislative decision to raise the minimum limits in Maryland aimed to reduce the frequency with which this mismatch occurred. So, proposing to roll that back in any way is not a small concern and is bound to animate any discussion of a reduced-limits approach. But two important factors significantly diminish the prospect that establishing an MLAI would result in Marylanders experiencing higher levels of this claim-cost to coverage-available mismatch.

1. Because the drivers allowed to purchase the lower-limits coverage policy must demonstrate a history of safe driving, MLAI policyholders are likely to cause fewer accidents than would be expected of a pool of drivers that included those with a history of accidents and violations. Further, the accidents caused in the California program have not typically exceeded even the CLCA's very low policy limits. In California—not known for its low-cost medical or car repair environment—CLCA drivers' accidents cause only $6,000 in bodily injury and $1,850 in property damage on average, well below any reduced limits that would be contained in an MLAI policy.

2. The vast majority of drivers (93%) who purchase reduced-limits policies in California are previously uninsured, which means that there would necessarily have been insufficient coverage for each and every accident

they caused. By moving drivers from no coverage to some coverage, the MLAI would actually be reducing the level of mismatch when accidents occur.

The second concern, that this program would lead to an exodus from standard coverage to lower-limits policies, also does not find support in the California experience. More than nine out of 10 drivers who purchase the CLCA policy were previously uninsured.[81] There is no evidence that Californians who managed to consistently maintain minimum-limits insurance reduced their coverage in any significant way, and it is likely that the majority of MLAI customers will, similarly, be previously uninsured.

To be sure, there are many drivers who try but cannot consistently maintain the 30/60 coverage required of them currently. MAIF reports, for example, that its policies were in force for only 236 days on average in 2017, potentially meaning that, on average, its customers carried insurance for less than two-thirds of the year.[82] It may be that a portion of these MAIF drivers who had no access to the private market will also be eligible for an MLAI because they are good drivers with low incomes. Perhaps some of them will choose to purchase a lower-limits policy for a full year rather than a higher-limits policy for two-thirds of a year. This is another possible public policy trade-off, but, again, the net benefit of consistent coverage seems to outweigh intermittent coverage at higher limits.

Creating a Maryland Low-Cost Automobile Insurance program

Using California's plan as a starting point, an MLAI policy with liability limits that are two-thirds the amount of current minimum coverage would be offered to any driver with a good driving record and a household income not greater than 250% of the federal poverty level. On those terms, the MLAI policy would provide 20/40/10 coverage, covering up to $20,000 for each injury and $40,000 total per accident, and property damage claims up to $10,000. Policymakers might also consider adopting lower limits such as 15/30 to further reduce the rate. Income-eligible drivers could have, in the prior three years, no more than either one moving violation point or one at-fault accident causing only property damage.

Underwriting and servicing the MLAI

As MAIF was created by the Maryland legislature "to provide the financial security required under § 17–103 of the Transportation Article to those eligible persons that are unable to obtain it from" the voluntary auto insurance market,[83] it would be appropriate that its insurance company, Maryland Auto, sells the MLAI policies. Further, as a not-for-profit, quasi-public insurer that already manages a significant book of business and maintains an agent network of 1,400 agents throughout the state,[84] MAIF is technically equipped and statutorily designed to sell this public interest-oriented auto insurance policy.

The sale of an MLAI policy through MAIF reflects the approach taken by California to treat the low-limits policy as a residual offering for those not served by the voluntary market. Maryland policymakers might consider an alternative approach, which might increase the accessibility of the MLAI. Namely, Maryland could allow all insurers to sell MLAI policies to eligible low-income drivers. These carriers would still be bound by the eligibility guidelines and the rate structure discussed below, so customers would be getting the same policy at the same price no matter how or from which company they purchased the MLAI policy. This approach might increase awareness of the program if a significant number of insurers and their agents were also selling the policy.

Pricing the MLAI

The price of coverage is critical to ensuring that the MLAI policy achieves the underlying public policy goal of being an affordable insurance option for lower-income drivers. The rates for the MLAI should be developed in a transparent

An appropriate, equity-oriented alternative to the California model would be to eliminate geography entirely for the Maryland Lifeline Automobile Insurance program and charge one rate statewide.

and public process under more scrutiny than is given to voluntary market rates or current MAIF rates. Maryland uses a "competitive rating" system for the rate regulation of its voluntary and MAIF policies,[85] relying on price competition to play a key role in rate setting. As MLAI would be structured as a nonprofit policy with affordability rather than competitiveness as its key mandate, its rates should be governed by a more stringent prior approval system of regulation that is open to public review and input.

The rate should reflect the actual losses stemming from MLAI policyholder accidents, as well as reasonable loss adjustment costs, and administrative costs. The rate should be reduced by the anticipated investment income insurers earn on customer premium and surplus, and it should not include a profit load. To the extent that there are insufficient MLAI data available, California data offer a useful complement because its book of business includes only good drivers, while other datasets generally do not break out loss experience according to driving records.

Reducing the coverage amounts and limiting the eligibility to only those lower-income drivers with a safe driving history are keys to making the MLAI an affordable policy, and the pricing of individual policies should not vary much among policyholders. One reasonable premium difference among drivers would stem from the driving experience of policyholders. So, for example, the program could be offered at one price to drivers with less than five years' driving experience and a lower price for those with more experience.[86]

There may be some temptation, following the California model, to vary rates according to geography. In California, which is 13 times larger than Maryland, drivers are placed in one of five broad geographic regions. If MLAI were to use some geographic pricing, it should be similarly limited to prevent the perpetuation of the disparate impact encountered by drivers in predominantly African American ZIP codes today. An appropriate, equity-oriented alternative to the California model would be to eliminate geography entirely for the MLAI and charge one rate statewide.

Limiting the risk classifications and other factors would also help lower the nonclaim costs of administering the MLAI program, which, in turn, helps lower customers' premiums.

Marketing and selling the MLAI

Unfortunately, selling auto insurance, even at below-market prices, does not abide by the *Field of Dreams* dictum "if you build it, they will come." As the California experience indicates, raising awareness about the program is both crucial and difficult. That challenge is not unique to CLCA; auto insurance companies famously spend billions of dollars on advertising, replete with athletes, mascots, and all sorts of attention-grabbing gimmicks.[87] The likes of GEICO, State Farm, Allstate, and Progressive invest in this manner because research shows that non-informational, brand-oriented marketing is the most effective way to connect consumers with a particular auto insurance provider, and that is as true among low-income consumers as it is among the population as a whole.[88]

The CLCA or the proposed MLAI could never (and should not) aim to compete with these carriers, but it would serve the underlying public purpose of insuring more Maryland drivers to dedicate resources to a strategic outreach plan. There is often a tension when it comes to government-funded outreach efforts, with the instinct to fund strictly informational efforts even if the data suggest that less information-rich approaches can be more effective.[89] Arguably, the MLAI program would benefit from an aggressive outreach effort directed toward currently uninsured good drivers, deployed with wide strategic and creative latitude. That does not mean MLAI should invest entirely in marketing; California has had some success partnering with community organizations that can provide direct outreach to prospective consumers and assisting people in the sign-up efforts.[90] To cover the costs of that effort, policymakers could consider a 20 cents per policy insurer assessment to support program awareness efforts. This would yield almost $1 million annually, an amount equal to about 0.02% of insurance companies' annual auto insurance revenue in Maryland.

In addition to raising awareness, an MLAI program should be available for purchase directly online. California, unfortunately, did not adopt the online sales option until many years into the program, but the recent experience with online sales demonstrates its utility and efficacy. A newly created Maryland program need not make that same mistake, and it would find itself positioned to provide more coverage more quickly than California's program, which, to its credit, had to blaze its own trail.

Conclusion

Offering a low-limits automobile insurance policy to low-income Marylanders will require more detail than is presented here. The California program, through its thorough plan manual and its public rate filings, provides a guide to serving safe drivers who want to comply with mandatory auto insurance laws if only they could afford the premium. A Maryland plan will have its differences; because of the smaller geographic size of the state, the concentration of uninsured motorists in a few counties, and the fact that MAIF already sells auto insurance, a Maryland program may well have some advantages in meeting its residents' needs.

Policymakers should be driven by these needs of residents—both those who can't afford insurance now and those who may be in an accident with an uninsured driver in the future—to introduce a plan such as the MLAI proposed here. The data above make it abundantly clear that Marylanders in tough financial circumstances often face auto insurance premiums they cannot afford, and their current and future economic prospects dim because of that. Moreover, the legacy of significantly higher premiums for good drivers living in African American communities of Maryland must be addressed. Establishing an MLAI would add an important strategy to the several approaches Maryland can deploy to reduce the number of uninsured drivers, tackle racial inequities in the auto insurance market, and help low-income residents overcome the burden of high-cost auto insurance.

About the Author

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Endnotes

1 According to the Insurance Research Council's most recent (2015) data, 12.4% of Maryland's motorists are uninsured, or 519,000 of the 4.19 million drivers in the state.

2 According to a January 15, 2017 presentation of the Maryland Department of Transportation, $3,878,701 in uninsured motorist debts (i.e., past due fines) represented only 5.33% of outstanding overdue fines. In 2015, the state collected more than $86 million in fines for driving without the required insurance. Burt, T., Smith, R., & Duncan, R., July 2016. Task Force to Study Methods to Reduce Uninsured Drivers. Maryland Department of Legislative Services, 43.

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8 See, for example, Federal Insurance Office, 2017 and Burt, Smith & Duncan, 2016.

9 See, for example, the series of "CFA Studies on the Plight of Low- and Moderate-Income Good Drivers in Affording State-Required Auto Insurance" available at https://consumerfed.org/cfa-studies-on-the-plight-of-low-and-moderate-income-good-drivers-in-affording-state-required-auto-insurance./

10 Ellis, J. (2016). *Achieving Regulatory Excellence.* Brookings Institution Press.

11 Maryland Transportation Code Section 17-101 *et seq.*

12 Maryland Insurance Code Section 20-612.

13 Maryland Insurance Code Section 19-506.1.

14 Jones, B. D. (2003). Bounded rationality and political science: Lessons from public administration and public policy. *Journal of Public Administration Research and Theory*, 13(4), 395-412.

15 Smart, M. J., & Klein, N. J. (2015). A longitudinal analysis of cars, transit, and employment outcomes. MNTRC Report 12-49. Also, according to the Maryland Automobile Insurance Fund, its average 2017 policy was in force for 236 days. Data provided by MAIF in July 24, 2019 response to author's Public Information Act request.

16 See, for example, Ma & Schmit, who found "evidence of a strong relationship between the price of automobile insurance and the relative size of the UM population... in terms of the number of UM affecting price." (2000, p. 282).

17 As is discussed below, it is recommended that a small amount of revenue generated from insurers outside of the plan's premium structure is used to raise awareness about the program.

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26 This should not be read as a dismissal of the utility and public benefit of public transit. It does, however, recognize that the weakness of the public transit infrastructure has a real, measurable impact on the lives of residents. The Central Maryland Transportation Alliance, for example, gave Baltimore a grade of F in its 2017 "Jobs Access by Transit" analysis, noting that a "typical Baltimorean can only get to 9% of the region's jobs in an hour using public transportation." Retrieved on July 18, 2019 from https://www.cmtalliance.org/report-card/.

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30 Feltner, T. & Heller, D. (2015). High Price of Mandatory Auto Insurance in Predominantly African American Communities. Consumer Federation of America.

31 The $15,000 property damage liability coverage requirement predated the 2011 change.

32 Md. Transportation Code Ann. § 17-106.

33 For each county, the Maryland Insurance Administration has selected a single ZIP code, which may mask more or less extreme differences that exist in the market as a whole.

34 The quote tests were conducted online at geico.com and progressive.com on October 20, 2019.

35 U.S. Census Bureau, 2019. Means of Transportation to Work by Selected Characteristics for Workplace Geography. 2013-2017 American Community Survey 5-Year Estimates.

36 U.S. Federal Poverty Guidelines (2019), retrieved from https://aspe.hhs.gov/2019-poverty-guidelines on July 22, 2019

37 Hunter, J. and Heller, D., 2019. Auto Insurance Regulation What Works 2019, retrieved on July 19, 2019 from https://consumerfed.org/wp-content/uploads/2019/02/auto-insurance-regulation-what-works-2019.pdf.

38 Litman, T. (2005). Pay-As-You-Drive Pricing and Insurance Regulatory Objectives. Journal of Insurance Regulation, 23(3).

39 NAIC, 2018. Auto Insurance Database Report 2015/2016. National Association of insurance Commissioners, 8.

40 See, for example, the reports of Consumer Federation of America available at http://consumerfed.org/cfa-studies-on-the-plight-of-low-and-moderate-income-good-drivers-in-affording-state-required-auto-insurance./ and Sine, M., undated. Low-Income Drivers and the Need for Affordable Auto Insurance. Maryland Consumer Rights Coalition, retrieved on July 29, 2019 from https://drive.google.com/file/d/0B9YC9yNpcVCKWktyU0lJMzBQdnc/view.

41 Consumer Reports, July 30, 2015. How does your credit score affect what you pay? Retrieved on July 26, 2019 from https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm.

42 United States Census Bureau: S2502: Demographic Characteristics for Occupied Housing Units 2013-2017 American Community Survey 5-Year Estimates; S1501: Educational Attainment; B19013, B19013B: Median Household Income in the Past 12 Months.

43 Using NAIC (2018) data, the average liability premium earned for each insurance policy in the Maryland private passenger auto insurance market in 2015 (Total Liability Earned Premiums ÷ Earned Exposures) was $599, while the average liability premium for each Maryland Auto vehicle was $1,256. As noted above, these data precede a string of Maryland Auto rate increases that began in December 2015. Using the Maryland Insurance Administration Comparison Guide (2019), rates for a couple with clean records (Example 11) are about 44% higher from MAIF than the average in the market.

44 The Maryland residual market is unique in that all policies are serviced and underwritten by a single, quasi-governmental company, Maryland Automobile Insurance Fund (MAIF). Most other states use an assigned risk approach, in which residual market policies are doled out to private insurers based on their market share in the voluntary auto insurance market.

45 Source: Maryland Automobile Insurance Fund rate filings, retrieved through SERFF Filing Access at https://filingaccess.serff.com/sfa/home/MD.

46 Data provided by MAIF in July 24, 2019 response to author's Public Information Act request.

47 NAIC, 2018, p. 162. It would require more research to fully understand why Maryland's residual market is an outlier in terms of its size. It may be that, for some drivers, Maryland Auto's rates are better than the private non-standard market competitors that often compete in lower-income communities. That doesn't make MAIF rates particularly affordable, just less unaffordable than others.

48 This can be contrasted with California Insurance Code Section 1861.15 (a), which requires a "good driver discount" policy to be sold to anyone who qualifies for it.

49 http://www.mymarylandauto.com/site/claims/claims-qa/

50 The 60% figure on the website does not precisely align with the data provided to the author by MAIF (see note 46), which suggests that clean-record drivers comprise approximately 50% of the book of business. This is likely a reflection of the website being less up-to-date than the data provided by MAIF.

51 He, M. M. (2016). Driving through the Great Recession: Why does motor vehicle fatality decrease when the economy slows down? Social Science & Medicine, 155, 1-11.

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53 Maryland Department of Transportation, October 2017. A Report to the Maryland General Assembly Regarding Program to Incentivize & Enable Uninsured Vehicle Owners to be Insured.

54 Letter from Merlinos & Associates, Inc. to Maryland Insurance Administration (July 20, 2010) confirming its independent review of GEICO's Maryland Private Passenger Auto Filing SERFF #: GECC-126632599, in which it noted "We have no objections to the proposed 30/60 increased limit factors for bodily injury and uninsured motorists."

55 State Farm's Maryland Private Passenger Auto Filing SERFF# SFMA-126795579.

56 Maryland Automobile Insurance Fund Filing SERFF# MDPC-126787187.

57 California law requires drivers to maintain liability insurance that covers at least $15,000 per injury, $30,000 for two or more injuries, and $5,000 for any property damage caused in a single accident.

58 California Department of Insurance (March 2019). 2019 Legislative Report. Retrieved from http://www.insurance.ca.gov/01-consumers/105-type/95-guides/01-auto/lca/upload/2019-CLCA-Legislative-Report.pdf.

59 Sun, S., & Yannelis, C. (2016). Quantifying the Premium Externality of the uninsured. *Journal of the European Economic Association, 14(2),* 405-437.

60 Author interview of Patricia Perez-Reyes, an LCA Lead Accepting Producer and Producer Representative on the California Automobile Assigned Risk Plan, conducted on July 26, 2019.

61 Story recounted via email to the author on October 20, 2017, by Ken Goodwin, owner of Pacific Preferred Insurance, which serves California's LCA Primary Online Producer.

62 California Department of Insurance (March 2019). *2019 Legislative Report*. Retrieved from http://www.insurance.ca.gov/01-consumers/105-type/95-guides/01-auto/lca/upload/2019-CLCA-Legislative-Report.pdf.

63 For 2012-2016 data, CLCA claims and incurred losses compiled by California Department of Insurance from the Department's "Survey on Auto Liability" pursuant to the author's Public Records Act request. For 2017-2018 data, CLCA claims and incurred losses compiled by AIPSO and provided to the California Automobile Assigned Risk Plan Advisory Board as "California Automobile Assigned Risk Private Passenger Liability Experience

Data Evaluated as of September 30, 2018 - Low Cost Automobile Insurance Program." 2018 data reflect only a partial year.

64 Data provided in July 1, 2019 email to author, by AIPSO, which manages the CLCA program for California.

65 Since 2010, the California Department of Insurance's reported expenditures on CLCA "advertising and outreach" has ranged from $1,089,925 in 2017 to $1,400,000 in 2012. These reports are presented annually to the California legislature and are available at http://www.insurance.ca.gov/01-consumers/105-type/95-guides/01-auto/lca/legrpts.cfm

66 Interinsurance Exchange of the Automobile Club (August 16, 2017). California 19.0001 Private Passenger Auto (PPA) Rate Filing. SERFF Tracking Number IACA-131140152. While this is a useful comparison, it is imperfect for a few reasons. For example, the Auto Club's advertising total presumably includes marketing of non-auto policies such as homeowners' insurance, but it also does not include marketing expenses for its affiliated roadside assistance and travel services that spur policyholder acquisition without being counted as advertising.

67 The complete eligibility requirements are contained in Article 5.5 of Chapter 1 of Part 3 of Division 2 of the California Insurance Code (Sections 11629.7 – 11629.88).

68 Unlike Maryland's residual market structure, in which MAIF serves as both the market mechanism and the underwriter of residual policies, California uses a more traditional assigned risk system for its residual market, and that has been adopted for the CLCA market. Under the assigned risk model, every auto insurer in the state is required to administer and underwrite residual and CLCA policies according to their private passenger automobile insurance market share, also called their "voluntary market" share. In recent years, the vast majority of auto insurers in California, with the notable exception of State Farm Mutual, have contracted with one of two specialty insurers known as Limited Assignment Distribution Servicing Carriers (LADs) to administer and underwrite the CLCA policies.

69 The surcharge for young unmarried drivers has exclusively applied to male drivers since the inception of the program, but the gender qualification will be eliminated with a 2019 rule that comports with California's decision to remove gender from all auto insurance pricing.

70 Burt, et al., 2016, 4

71 2019 Low-Cost Rate Review provided by AIPSO to California Automobile Assigned Risk Plan Advisory Committee, April 29, 2019.

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73 California Insurance Code Section 1872.81(c).

74 In its Annual Reports to the California Legislature (available at http://www.insurance.ca.gov/01-consumers/105-type/95-guides/01-auto/lca/legrpts.cfm) and reports provided at the public meetings of the California Automobile Assigned Risk Plan Advisory Board, the Department of Insurance has tracked expenditures and strategies of the CLCA outreach and education program since 2005.

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78 Maryland Vehicle Administration estimates that the percentage of drivers in Montgomery County is about three times its estimate of the statewide rate of uninsured drivers; Baltimore County is four times worse than the state; and Prince George's County has more than five times the statewide average of uninsured drivers. See Burt, T., Smith, R., & Duncan, R., July 2016. Task Force to Study Methods to Reduce Uninsured Drivers. Maryland Department of Legislative Services, 39. It is notable that MVA's estimate that 4% of drivers statewide are uninsured is in stark contrast with the widely used Insurance Research Council 2015 estimate that 12.4% of Maryland drivers are uninsured. But even among these widely divergent models, somewhere between about 150,000 and 520,000 drivers are estimated to be uninsured in the state.

79 Burt, et al., 2016, 35.

80 If MLAI were a 20/40/10 policy as discussed below, it would have the same or higher bodily injury limits ($20,000/$40,000) as 14 states and the same or higher property damage limits ($10,000) as 24 states.

81 California Department of Insurance (March 2019). 2019 *Legislative Report*, 2.

82 Data provided by MAIF in July 24, 2019 response to author's Public Information Act request. The data do not indicate whether or not drivers stopped driving, drove uninsured, or purchased private market insurance after their policies lapsed.

83 Maryland Insurance Code Section20-301(a).

84 https://www.mymarylandauto.com/site/find-an-agent/

85 This stems from SB 910, 2017 legislation that removed the requirement that MAIF receive prior approval from the Maryland Insurance Administration before raising rates.

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By Douglas Heller, MPA
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