



Auto

AUTO INSURANCE TERMS IN SIMPLE LANGUAGE

These plain-English explanations will help you understand some of the insurance terms you'll find in your policy.

Actual-cash value. That's the amount your property was worth just before it was damaged, destroyed, or stolen. Adjusters figure actual-cash value by taking an item's replacement cost and subtracting depreciation that reflects its age, condition, and possible obsolescence. That means if you crash the \$30,000 car you bought four years ago, your insurance company will pay you less in settlement or repairs.

Collision. This coverage pays for damage to your car resulting from being hit, hitting another object, or if your car overturns, regardless of fault.

Comprehensive. This pays for losses to your car caused by something other than collision – for example, vandalism, theft, and acts of nature like fire, flood, windstorms, hail, or even hitting a deer.

Conditions. Insurance policies are conditional contracts. This section spells out which occurrences create or extinguish your legal rights. When “conditions” are met, the insurer pays. When they aren't, it doesn't. Some examples of conditions: you must notify the insurer as soon as practicable when a loss occurs, you must cooperate with the insurer in defense of a claim, and your premium must be paid.

Declarations. Found at the front of your policy, this page personalizes the insurance contract to you. It shows your name and address, limits and deductibles for different coverages, describes the property insured, and premiums to be paid.

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Deductible. That's the amount you must pay out of pocket on a claim before insurance coverage kicks in.

Exclusions. Some policies use the term "exceptions," but it means the same: circumstances listed on the policy that the insurer won't cover. For example, you can't collect under property-damage coverage for a maintenance issue like a frozen radiator.

Liability. If you're found even partially at fault in an accident, this coverage pays if you damage another driver's car, injure, or (heaven forbid) kill someone. Think of it as protection from your mistakes.

Medical Payments/Personal Injury Protection (PIP). This pays for you and your passengers' medical expenses – regardless of fault – from an accident or if you're injured as a pedestrian or bicyclist.

No-fault insurance. A "no-fault" system means your own insurance company pays for injuries or damage in an accident regardless of who caused it. No-fault also limits your right to sue in some cases. The idea is to cut legal costs that stem from fairly minor claims. According to most lists, neither Oregon nor Washington are considered no-fault states; however, Oregon does require drivers to carry uninsured motorist and PIP coverages in addition to liability coverage. Even in a no-fault state, you still can sue if you're seriously injured by someone in an accident.

Rental reimbursement. Pays a preset daily limit toward the cost of a rental car while yours is in the shop under a covered collision or comprehensive claim.

Replacement cost. Unlike actual-cash value (that includes depreciation when calculating an item's worth), replacement-cost coverage means your belongings are replaced or reimbursed at today's costs. "Replacement cost" is more commonly associated with homeowners rather than auto insurance.

Standard, preferred, and assigned risk. A "standard risk" is a person who, according to an insurer's underwriting guidelines, can buy insurance without special restrictions or paying a surcharge. Think of the average driver – the kind of guy who may not have a spotless record but isn't a menace, either. "Preferred risk" refers to cream-of-the-crop drivers – experienced and responsible, with clean records. They can seek out companies (such as PEMCO) that specialize in the preferred market and receive exceptional service at lower rates. "Assigned-risk" drivers have such questionable pasts behind the wheel that no company will insure them voluntarily. Via lottery among major insurers, the state mandates companies to cover them with minimum liability limits.

Uninsured or Underinsured Motorist. It pays what you are entitled to recover for bodily injury or property damage in an accident if the responsible party isn't insured, doesn't have enough insurance and can't fully compensate you out of pocket, or in the case of a hit-and-run driver, can't be found.