

# Informed Consumer ...Insurance Made Easy

Helping you to save  
money, become more  
informed and cover  
your fatal gaps



Tom Baecker  
Agency Owner

Baecker Agency, Inc.  
373 Pedersen Street, Suite 104  
St. Paul, MN 55119  
P 651-730-6666  
F 651-730-4354  
Toll Free 1-877-730-4678  
Email: [BaeckerAgency@Allstate.com](mailto:BaeckerAgency@Allstate.com)  
[www.BaeckerAgency.com](http://www.BaeckerAgency.com)

# "Special Report"

## Understanding Auto Rate Increases

By Tom Baecker  
Baecker Agency, Inc.

**Insurance Basics.** Risk, or the possibility of loss, is as certain as life and inevitable as taxes. Accidents occur and catastrophes happen that interrupt our lives daily. While we cannot prevent these, we can compensate or be compensated for them. Risk protection has been a primary goal of humans and institutions throughout history. Intelligently protecting against risk is the essence of insurance.

Over the years I have been asked these key questions. I would like to share my insight with you:

### **I Have Never Filed A Claim So Why Do My Rates Keep Going Up?**

Your premium payments are going into a pool of money that is used to pay the losses of the group. Based on the size of the group, the insurance company uses historical data to calculate how many people within the group are likely to have claims, and what the severity of those claims will be. The insurance company keeps track of the premiums it receives and the amount of money it pays in claims and overhead. The result of these calculations determines how much money the insurance company needs to collect from their customers in premiums.

### **What Drives Rate Increases?**

**1. The severity of claims.** Severity means how much is paid to settle a claim. During the past few years the average cost to settle a claim has steadily increased compared to previous years. These are some of the costs that increase severity:

- Medical Expenses to pay for injuries have increased over 10% for the last 8 years.
- The cost of automobile parts is increasing. Most automobile parts are petroleum-based. Even though your car is getting older, the

insurance company usually buys new parts when repairing your car after an accident.

- The cost of labor to repair automobiles after an accident has increased. The cost of labor is the same when repairing a new car or an older car.
- Uninsured motorists - The percentage of people driving without insurance has increased with our population growth. Your insurance premiums pay for your property damage and medical expenses if an uninsured driver causes an accident with you.

**2. The frequency of claims.** Frequency refers to how often claims occur. These are some of the things that can increase frequency: Severe weather & road conditions, drunk or impaired driving, cell phone usage etc. are just a few of the factors that can increase frequency. We have noticed an increase in accidents as a result of increased cell phone usage while driving, especially among younger drivers who also do a lot of text messaging.

## **A Few Years Ago When I Compared The Price Of My Policy To Another Company, My Policy Was Lower, And This Year My Price Is Higher. Why?**

Some insurance companies are a little slower to react to the impact of claims and inflationary pressures. At some point, they will have no choice but to react by raising their premiums. It may take a few months, but all companies are experiencing the same market pressures. Generally speaking, premiums fluctuate from year to year for all insurance companies. Last year's lowest-priced company may be this year's highest-priced company and vice versa. If you get a policy and hold it for ten years, you may average about the same price with one company as you will with another.

## **Why Shouldn't I Just Change To The Lowest-Priced Company From Year To Year?**

Your insurance policy may have tenure benefits that you could lose. Your policy may include some or all of the following:

**Guaranteed Renewal** - Your present policy may guarantee that you will never be cancelled -- even if you have tickets and accidents. Some companies have been known to cancel a policy due to a single accident or ticket.

**Accident Forgiveness** - Your present policy may guarantee that your premium will not increase when you are in an at-fault accident. Other companies can increase your rate as much as 40%.

**Deductible Reward** - Each year you may earn a credit toward your collision deductible. That's money in your pocket if an accident occurs.

**Claim Thresholds** - You may not be surcharged for a claim if the amount paid by the insurance company is below a certain threshold. Many companies will surcharge a policy regardless of the amount of payout, and sometimes even if nothing is paid.

**Customer Service** - When calling your insurance company it is important to be able to deal with the same agency who understands your needs and is local versus call centers

# Informed Consumer...*Insurance Made Easy*

and calling trees where you will very rarely talk to the same person twice, and you will often get someone in India or Ireland.

## **How Can I Lower My Rates?**

Please call our office. We would be happy to review your policy. We can advise you on selecting the right coverage limits, deductibles, and features to help you control costs. We also have new discounts that become available that you may qualify for and are not taking advantage of.

At Baecker Agency, Inc. we take a personal interest in our customers. We like to share information that comes to help you protect yourself and your family from financial loss. If you have any questions, regarding this information or your insurance coverage, please don't hesitate to give us a call at (651) 730-6666 or Email us at [BaeckerAgency@Allstate.com](mailto:BaeckerAgency@Allstate.com)

