

## CAR INSURANCE

### What Is Liability Insurance and What Does It Cover?

*Liability insurance protects you if you injure someone else or damage their property with your car.*



(Image credit: Getty Images)

Auto liability insurance helps financially protect you if you or your car is found at fault in an auto accident. This type of coverage is about safeguarding you from third-party claims; it will not cover any damage to your car or your injuries.

Liability pays out when you hit someone or something with your vehicle. It can help cover an injured person's medical bills, repairs to someone's vehicle or fix damage to property. Drivers in most states are legally required to carry some form of liability insurance.

#### **What are minimum car insurance requirements state-to-state?**

Minimum car insurance requirements vary from state to state. But state requirements are generally modest — typically \$20,000 to \$30,000 for bodily injury suffered by one person in an accident, \$50,000 for all people hurt in the same accident, and up to \$25,000 for property damage resulting from that accident. A state's required minimum merely keeps you in

compliance with state law. Most drivers need more than the minimum to avoid paying out of pocket to make up the difference between the damages and your coverage.

Nearly all states have some sort of mandate related to automobile liability insurance coverage. New Hampshire and Virginia are the only two states that do not have these mandates. While drivers in Virginia have to pay a \$500 uninsured motor vehicle fee to register their non-insured vehicle, uninsured drivers in New Hampshire don't have to pay any additional fees or taxes.

### **What is auto liability insurance?**

Basically, liability coverage is the part of your auto insurance policy that pays for the other driver's expenses if you cause a car accident. It does not, however, cover your own. There are two types of liability coverage: bodily injury and property damage. In some states, a third type of liability coverage called uninsured/underinsured motorist coverage is also required.

Don't forget that your property damage liability insurance won't cover the cost of repairing your car if you're in an accident. Also, your bodily injury liability insurance doesn't cover your own medical bills if you're injured in a collision. Instead, it covers the injuries or damage that you cause to another person in an accident. Liability coverage protects your financial well-being, not your body or your property.

### **What is covered by bodily injury liability insurance?**

Bodily injury liability coverage helps pay the costs for anyone that is injured in a car accident where you're found liable. This may include a driver or passengers in another car, pedestrians or unrelated passengers in your own car. It covers medical expenses, compensation for lost wages and income and legal fees.

For instance, you run a red light, strike another car and injure the driver. Your liability coverage obliges the company to defend you — in court, if necessary — and pay claims to the other driver for vehicle damage and bodily injuries, including medical and hospital costs, rehabilitation, nursing care, and possibly lost income and money for pain and suffering.

### **What is covered by property damage liability insurance?**

Property damage liability coverage helps pay for damage you cause to another person's vehicle or property. If you hit someone else's car, front porch or mailbox with your car, property damage liability coverage may help pay to repair their property.

Fewer states require uninsured/underinsured motorist insurance but it's in your and your passengers' best interests to think seriously about buying this coverage. Unlike liability insurance, this coverage can help pay your expenses.

It covers your injuries, your passengers' injuries, and damage to your vehicle if you're hit by a driver who doesn't have enough or has no auto insurance coverage. It may also cover hit-and-run accidents. So, if a driver hits your vehicle and flees, you can file a claim against your policy's uninsured motorist coverage.

### **How much coverage do you have?**

Insurance companies use a shorthand to describe their liability coverage, and even if you understand the lingo, it might not be immediately apparent how much coverage you carry.

For instance, a policy might be listed as 50/100/25. Here is what those numbers mean:

- The first number refers to the per-person limit coverage, in thousands of dollars, for injury to one person.
- The second number is the per-accident limit for injuries to all people in the same accident.
- The third number is the coverage for property damage in the same accident.

For example, say your per-person limit is \$50,000 and your per-accident limit is \$100,000. That means if one person is injured in a car accident, the most your bodily injury liability would pay for all of their medical expenses is \$50,000 and if you cause a car accident that injures three people, the most your bodily injury liability would pay for their combined expenses is \$100,000. There is also a maximum amount your insurer would pay to repair any damage you cause to another party's property.

Some companies issue single-limit policies, with one liability limit that applies to total payments arising from the same accident, regardless of the number of people injured or the amount of property damaged.

If the company incurs legal expenses to defend you against a lawsuit, those expenses don't count toward the liability limits. Nor do payments you receive under the policy for bail bonds and earnings lost while attending hearings and trials at the company's request.

### **How much coverage do you need?**

You should carry as much liability coverage as you can comfortably afford because damage claims today are sometimes settled for millions. State minimums don't come close to covering the cost of a serious accident.

At minimum, you should carry a 100/300/100 policy. This provides bodily-injury coverage of at least \$100,000 per person, and \$300,000 per accident, and property-damage coverage of \$100,000, or a minimum of \$300,000 on a single-limit policy.

You should purchase higher levels of coverage if you have significant assets. A minimum policy of 250/500/250 is recommended to protect yourself financially.

Raising your limits isn't expensive. For example, \$300,000 in coverage costs on average 20% more than \$100,000. The more coverage you buy, the less you have to pay per \$1,000 of coverage. Ask your agent for precise figures. You may even want to investigate raising your liability coverage further through a personal umbrella policy.

Any damages that go beyond the limits of your policy are still your responsibility, which means your home, your vehicles, and any other assets you have could be at risk if you are taken to court over an at-fault accident.

Personal umbrella insurance is a way to purchase extra liability coverage that goes above liability limits in another insurance policy. That means if you cause an accident and reach your auto policy's liability limits, the umbrella policy would kick in to help pay the remaining covered costs.

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