

Major Auto Insurers Charge Higher Rates to High School Graduates and Low Income Workers

In Buffalo and across the State of New York low-income workers are paying more for auto insurance as a result of auto insurers using education and occupation among other socioeconomic indicators as premiums factors

The Western New York Law Center has conducted a study on rate calculation practices of auto insurance companies serving consumers in Buffalo, New York. The study examined socioeconomic indicators such as education and occupation as they relate to the premium that auto insurance companies charge Buffalo drivers. The research indicates that drivers of lower socioeconomic standing working in low wage occupations with a low level of educational attainment pay higher premiums for obligatory limited liability coverage. There is a need for strong legislative and regulatory change in order to eliminate the use of discriminatory socioeconomic factors from the process of generating auto insurance premiums. The results and trends in the study follow those of other regional and national studies. The research conducted by the Law Center revealed:

- For Buffalo citizens with clear driving records, Progressive charges a Buffalonian with a high school diploma working as a bank teller 15% (\$694 vs. \$603) more than the same driver working as a Vice President with a Master's degree.ⁱ
- Further, for Buffalo citizens with clear driving records, Progressive charges a female driver working as a bank teller with a high school diploma 31% (\$810 vs. \$617) more than a male driver working as a bank teller with a high school diploma.ⁱⁱ
- For Buffalo citizens with clear driving records, Progressive charges a female driver working in a managerial position with a Master's degree 28% (\$696 vs. \$545) more than a male driver employed as a Vice President with a Master's degree.ⁱⁱⁱ
- For Buffalo citizens with clear driving records, Liberty Mutual charges a bank teller with a high school diploma 24% (\$900 vs. \$726) more than the same driver working as a Vice President with a Master's degree.^{iv}
- Liberty Mutual does not ask Buffalo drivers about their specific occupation, but asks if the driver is employed.
- GEICO asks drivers in Buffalo about their level of education and occupation, but these factors do not have an impact on the quote a consumer is given. However, studies conducted in 2013 by the Consumer Federation of America and in 2014 by the New York Public Interest Research Group indicated that in the past, GEICO has used education and occupation to determine a driver's auto insurance premium.
- Farmers Insurance does not ask drivers about their level of occupation or education in their quote process.
- State Farm does not ask drivers about their level of education or occupation, but relies on one's credit and driver identification number to generate a quote for drivers.

In the study, over 1,200 quotes were generated using the online quote systems for Progressive, Liberty Mutual, GEICO, Farmers Insurance, and State Farm. The quotes were generated for profiles of 30 year

old females, males, and married couples. Each driver has a perfect driving record and drives a 2002 Honda Civic DX sedan. The individual or family rents their home and drives 10,000 miles per year. The only factors that were manipulated were the consumer's level of education and occupation. Education was moved from high school graduate/GED to Master's degree/greater than bachelors degree; and occupation was moved from bank teller to Vice President. The results indicate that those with lower socioeconomic class, lower level of education, and lower professional title paid more for auto insurance than those who have higher wages and higher education.

The Impact of Discriminatory use of Education and Occupation by Auto Insurers

Buffalo drivers face high premiums because they live in an urban center. Auto insurance companies also make use of other discriminatory practices in calculating premiums. In the state of New York, it is required that all individuals operating motor vehicles have minimum liability auto insurance. In the implementation of this policy, Buffalo's low- to moderate-income drivers pay higher premiums than high-income drivers. Buffalo residents and their suburban peers rely on cars to commute to and from work. Urban Buffalo drivers tend to have a lower level of education and work in lower wage jobs compared to their suburban peers and yet premiums for auto insurance are determined based on educational level and occupational title, regardless of driving record. Thus, it is necessary to understand the impact of high auto insurance premiums and eliminate the practice of using socioeconomic factors such as education and occupation from the calculation of auto insurance premiums.

Urban Buffalo citizens rely heavily on their cars to commute to work and conduct their daily affairs. Due to the location of employers and the concentration of affordable housing, many city residents need a car to get to and from work. In order for many low-income workers to maintain their jobs, it is not reasonable for them to use existing Buffalo public transportation options. Further, many employers require employees have reliable access to personal transportation in order to be eligible for employment. Of the working population living in Buffalo, 80,157 workers rely on a car to get to work; 64% of Buffalo workers are affected by New York State's compulsory auto insurance law.^v Of these drivers, those earning low wages suffer a greater financial burden as a result of the discriminatory practices of auto insurance companies in New York.

The working population in the City of Buffalo has a relatively low level of education, which impacts each person's ability to access higher paying jobs and exasperates preexisting financial burdens. The penalty of having a low level of education stretches beyond the professional opportunities one is afforded. A person with education short of a Master's degree is faced with a professional ceiling as well as higher costs for basic services, such as auto insurance. In the City of Buffalo, 45% of individuals have earned a high school diploma or less, while only 11% have obtained a graduate or professional degree, resulting in a disproportionate numbers of individuals paying higher premiums for auto insurance.^{vi} Auto insurance companies like Progressive and Liberty Mutual heavily rely on education in calculating premiums, so those with less than a graduate degree are financially penalized.

Limited education is not a direct determinate of the level of employment one can achieve, but it is a significant barrier to obtaining higher status and higher paying jobs. Single Buffalo workers earn a median income of \$24,332 while a working family earns a median income of \$37,412 per year.^{vii} The income of Buffalo residents is significantly lower than the state and national median. Nationally, the median income is \$53,046 while the median family earns \$64,719.^{viii} In New York State the median

income is \$58,003 while the median family earns \$70,670.^{ix} It is clear that in Buffalo workers earn significantly less than their peers nationally further displaying the significant impact discriminatory practices have on Buffalonians. When considering the population that has a low income and a low level of education, the financial burden to comply with New York State auto insurance requirements is onerous. Education not only limits the level of professional attainment one can achieve, but it also has an impact on a person's wage potential causing them to pay a higher percentage of their income for necessary services such as auto insurance.

In an holistic examination of the range of factors that contribute to what one pays for auto insurance the reality is that a substantial numbers of Buffalonians earn a low wage, have lower levels of education, and need a car to maintain their employment, it becomes clear that many Buffalonians are being charged more for auto insurance at the hand of discriminatory auto insurance practices. Individuals with low incomes and low levels of education already face significant financial challenges, amplified by industries like auto insurance. A person should not be subjected to a 24% higher premium for auto insurance because they have not earned a masters degree.

Progressive's Disparate Premiums for Female Drivers

Female drivers in Buffalo face the same income and educational restraints as their male counterparts, yet Progressive extends an extra financial burden to women by charging them significantly more than their male peers. Progressive not only uses education and occupation to penalize low-income female drivers, but they also charge a female with the same driving record 31% more than the comparable male driver.^x This severe discrepancy in premiums places an extraordinary burden on female drivers who already earn \$6,343 less than their male peers.^{xi}

The extreme discrepancy in premiums women pay has the greatest impact on the 14,910 single females with children in Buffalo.^{xii} Many of these women face challenges providing basic necessities for their children while maintaining full-time employment. A car is not a luxury for these families, but rather a necessity. In order to get children to childcare, get themselves to work, and get food, a car is a necessary tool. Women insured by Progressive with low incomes and a low level of education pay the highest premium of any Buffalo drivers.

Regardless of education or occupation, female drivers with Progressive pay premiums that are significantly higher than their male counterparts. Female drivers on average have less money in their pocket, yet Progressive quotes women a higher premium than men. Progressive's discriminatory use of gender places a significant burden on low-income female drivers.

The Unfair Reality of Auto Insurance Practices

The State of New York requires that all drivers carry minimum liability insurance in order to lawfully operate their car. After examining the current auto insurance climate in Buffalo and comparing the results to other state and national studies, it is clear that insurance companies operating in New York are able to emphasize any factors they choose to calculate a consumer's premium. By emphasizing non-driving factors, insurance companies minimize considerations such as one's driving history, number of miles driven, and number of moving violations, which causes low- to moderate- income families to pay more for a mandatory product.

This active practice of auto insurance companies in New York is contrary to public opinion. In a 2012 study conducted by ORCI on the use of education and occupation in calculating auto insurance premiums, 68% of Americans felt it was unfair to use education as a factor, and 65% stated that the use of occupation in calculating premiums was unfair.^{xiii} The Western New York Law Center conducted a similar survey of 300 drivers from Buffalo and Erie County that observed 69% of respondents believe that auto insurance companies should not use education and occupation as factors in calculating premiums. Based on public opinion and the reality that less educated low wage workers are charged more for auto insurance, it is clear that the auto insurance industry employs practices that place unfair financial burdens on low-income individuals.

Low- to moderate-income drivers with a clear driving record are effectively subsidizing high-income drivers with a tarnished driving record. If the process of charging premiums were based on factors that evaluated one's risk as a driver, low- to moderate-income individuals would have the same opportunity to pay a more reasonable premium as a good driver with a higher income. By focusing on driving-related factors such as moving violations, miles driven in a year, and accidents, the market for auto insurance would allow all good drivers to pay a lower premium regardless of their socioeconomic standing. Thus, eliminating the use of socioeconomic indicators, such as education and occupation, would provide a more equitable auto insurance marketplace for New York drivers.

Lifting the Burden off Good Low to Moderate Income Drivers and Creating an Affordable and Equitable Auto Insurance Market in New York

If New York State mandates all drivers to participate in an auto insurance market, the state also has the responsibility to ensure that each driver is treated in a fair and equitable manner in that market. Auto insurance premiums are supposed to be determined by the risk that a driver will be involved in a situation resulting in a claim. There are clear indicators that display the risk a driver poses, yet under the current regulatory market these factors are muddled by non-driving factors that actively discriminate against low- to moderate-income drivers.

The primary step in establishing an equitable market is to eliminate an auto insurance company's ability to use factors that actively discriminate against certain groups of people. By allowing the use of education and occupation as premium factors, low- to moderate-income drivers are unfairly discriminated against. It is known that fewer African-Americans have higher education degrees, which extends the impact of discriminatory practices engaged in by the auto insurance industry. The New York State Legislature should take action and pass Assembly Bill 6834 that is currently before the New York State Senate Insurance Committee and eliminates education and occupation as rate factors in calculating auto insurance premiums.

Education and occupation are not the only socioeconomic factors that are used by auto insurance companies to unfairly discriminate against low- to moderate-income drivers. Auto insurance companies actively use a person's credit score as a factor to determine their premium. Due to limited access to responsible sources of credit, many low- to moderate-income drivers have limited and low credit, which causes their auto insurance to be higher and creates a barrier to other financial services. Consumers Union found that a New York driver with a clean driving record and poor credit pays as much as \$1,759 more than a good driver with excellent credit.^{xiv} Further, a good driver with poor credit pays \$589 more than a driver who has been convicted of a DWI (Driving While Impaired) with excellent credit.^{xv} The New York

Department of Financial Services should engage in an active investigation on how auto insurers in New York use credit scores in calculating premiums to uncover socioeconomic discrimination. From that point, the Department of Financial Services should take regulatory steps, or work with State Legislators to form legislation that eliminates the use of credit score.

The use of specific non-driving factors are not the only potential threat to equality in the auto insurance market. Insurance companies have begun using price optimization tools to examine their policy holders' consumer habits to determine their likelihood to switch auto insurance providers if their premiums increase. Researchers in New York and across the nation have begun to examine this issue and have seen a high rate of impact on low- to moderate-income drivers. The research indicates that drivers of low- to moderate-income tend to shop around for auto insurance less than high-income peers. Thus, they are punished by auto insurance companies' practice of increasing premiums year over year for drivers they believe will not switch insurance providers, and are instead punished for brand loyalty. The Law Center is examining this issue in Western New York and will continue to monitor the impact the policy has on low- to moderate-income drivers as a means to work toward an equitable insurance market for all drivers.

The Law Center is committed to examining the use of socioeconomic factors and their impact on auto insurance premiums. The Law Center will continue present and share their findings with the public as a tool to eradicate discriminatory practices in the auto insurance industry. By looking further into the impact of socioeconomic indicators such as credit score and pricing schemes, the Law Center will be able to work with drivers and law makers to ensure all drivers participate in an equitable auto insurance market. It is time for New York to ensure that all drivers are treated fairly in the auto insurance market.

Appendix A

Progressive and Liberty Mutual Average Premium Chart *All premiums are presented as 6 month premiums*

Education and Occupation

	Good Driver with a High School Diploma working as a Bank Teller	Good Driver with a Graduate Degree working as a Vice President	Percent Difference
Progressive	\$694	\$603	15%
Liberty Mutual	\$900	\$726	24%

Gender with a High School Diploma

	Female Good Driver	Male Good Driver	Percent Difference
Progressive	\$810	\$617	31%
Liberty Mutual	\$924	\$957	-3.45%

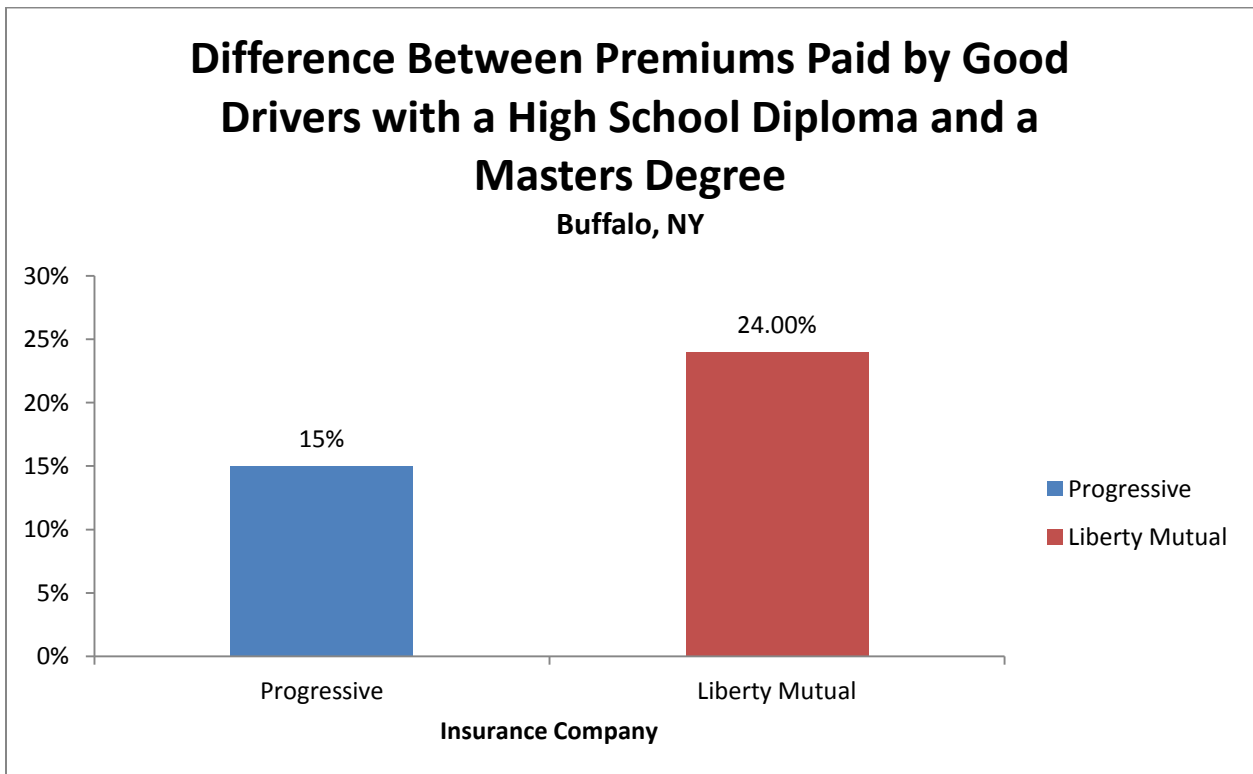
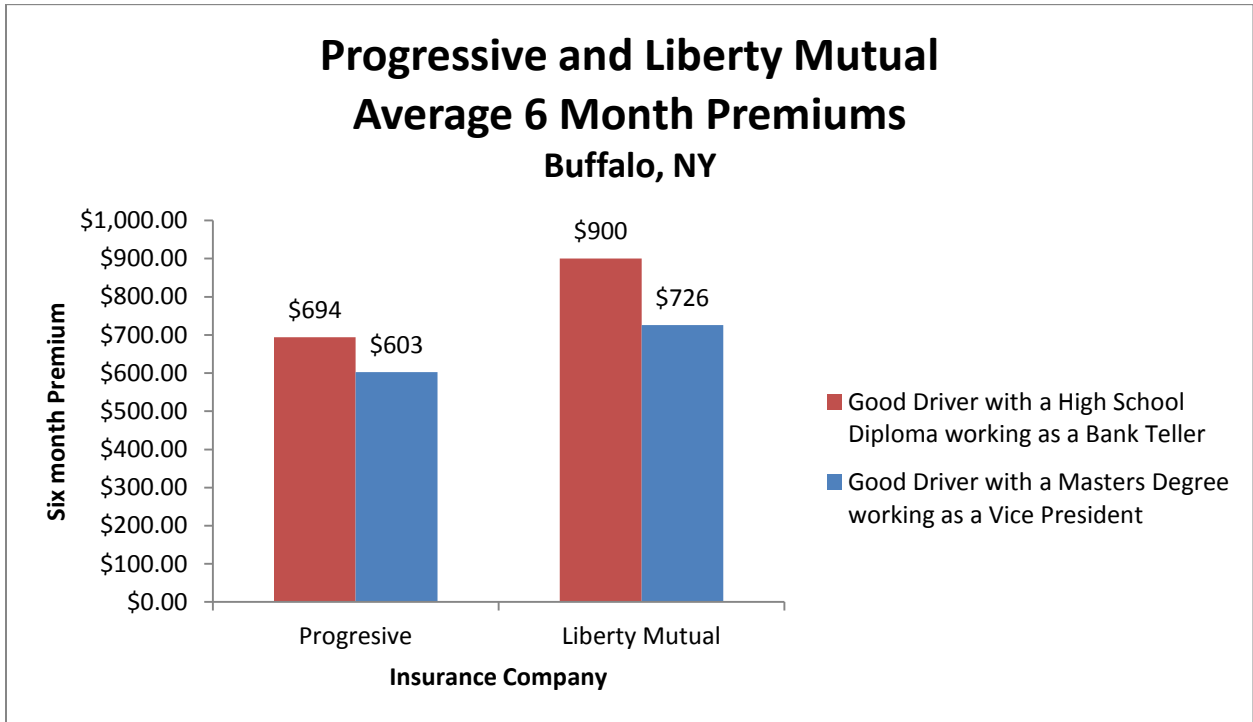
Gender with a Graduate Degree

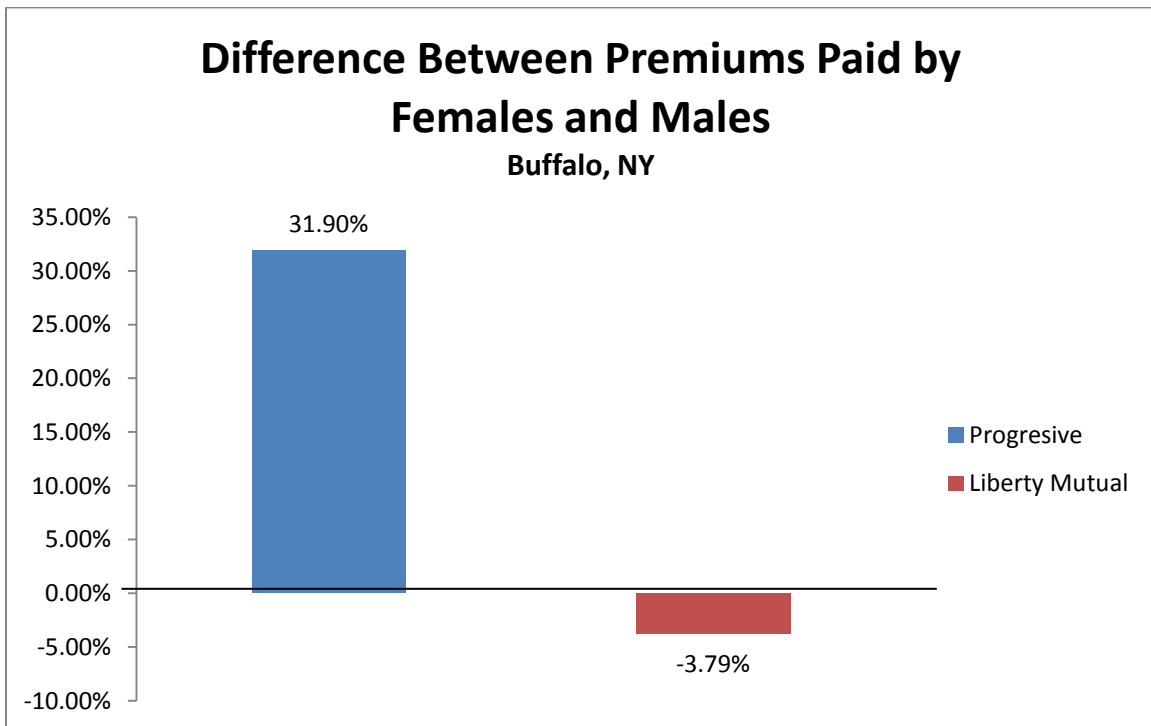
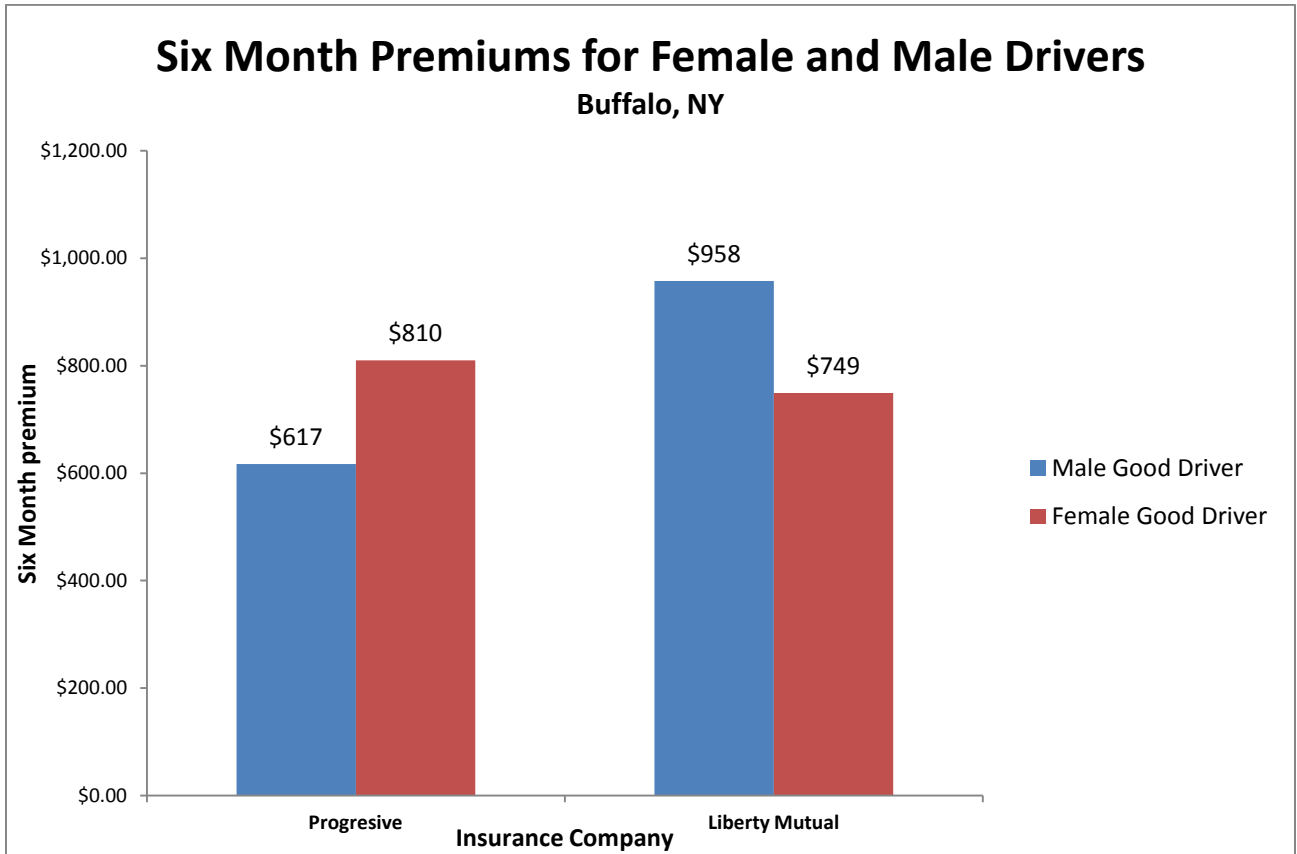
	Female Good Driver	Male Good Driver	Percent Difference
Progressive	\$696	\$545	28%
Liberty Mutual	\$749	\$791	-5.31%

Appendix B

Progressive and Liberty Mutual Premium Graphs

All premiums are presented as 6 month premiums





ⁱ See Appendix A. Progressive and Liberty Mutual Average Premium Chart

ⁱⁱ See Appendix A. Progressive and Liberty Mutual Average Premium Chart

ⁱⁱⁱ See Appendix A. Progressive and Liberty Mutual Average Premium Chart

^{iv} See Appendix A. Progressive and Liberty Mutual Average Premium Chart

^v U.S. Census Bureau. 2009-2013 American Community Survey 5-Year Estimates

^{vi} U.S. Census Bureau. 2009-2013 American Community Survey 5-Year Estimates

^{vii} U.S. Census Bureau. 2009-2013 American Community Survey 5-Year Estimates

^{viii} U.S. Census Bureau. 2009-2013 American Community Survey 5-Year Estimates

^{ix} U.S. Census Bureau. 2009-2013 American Community Survey 5-Year Estimates

^x U.S. Census Bureau. 2009-2013 American Community Survey 5-Year Estimates

^{xi} U.S. Census Bureau. 2009-2013 American Community Survey 5-Year Estimates

^{xii} U.S. Census Bureau. 2009-2013 American Community Survey 5-Year Estimates

^{xiii} News Release. Consumer Federation of America. July 22, 2013. Major Auto Insurers Charge Higher Rates to High School Graduates and Blue Collar Workers.

^{xiv} Consumer Reports. September 2015. The Truth About Car Insurance.

^{xv} Consumer Reports. September 2015. The Truth About Car Insurance.