State Variations in Auto Insurance Affordability

Insurance Research Council

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With nearly every state requiring drivers to maintain minimum coverage, the affordability of personal auto insurance is an important public policy issue. The Insurance Research Council (IRC) measures auto insurance affordability by calculating the ratio of average auto insurance expenditures to median household income. It measures the proportion of household income that goes toward paying for auto insurance and enables comparisons of auto insurance affordability over time and across jurisdictions.

For the average consumer, personal auto insurance has become more affordable over time. In the 2010s, average expenditures for auto insurance were 1.6 percent of median household income, down from 1.9 percent in the 1990s.

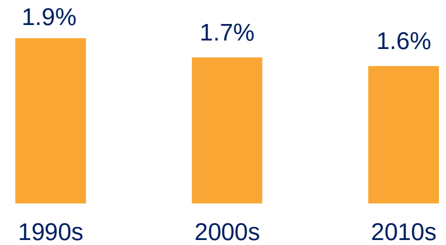
Auto insurance affordability varies dramatically across states. The least affordable state, Louisiana, had an expenditure-to-income ratio that was more than three times higher than the most affordable state, Hawaii.

Any efforts to improve affordability must address the underlying cost drivers. Key cost drivers in regard to affordability include, but are not limited to:

- accident frequency
- repair costs
- injury claim relative frequency
- injury claim severity
- medical utilization
- attorney involvement
- claim abuse
- uninsured motorists
- litigation climate

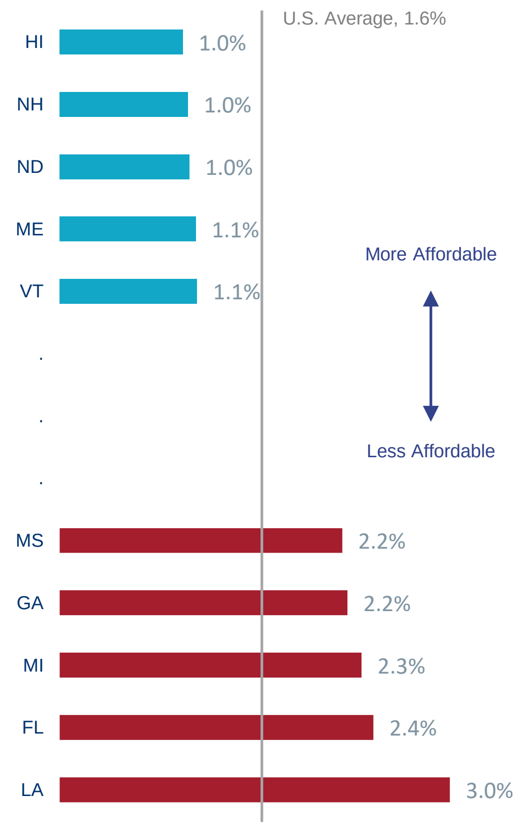
These factors vary widely across the 51 different auto insurance systems in the U.S. The main culprit driving up insurance costs in one state may not be a factor in a neighboring state. This IRC report seeks to illuminate these differences with a state-by-state analysis that may help guide policymakers as they work to improve overall affordability.

Personal Auto Insurance Has Become More Affordable



Insurance expenditures as share of household income

States Exhibit Dramatic Differences in Auto Insurance Affordability



Source: IRC calculations based on average personal auto insurance expenditures data from the National Association of Insurance Commissioners and median household income data from the U.S. Census Bureau.