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AUTOMOBILE INSURANCE IN COLORADO

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In 2003, the Colorado General Assembly allowed the state's 30-year-old no-fault automobile insurance system to expire and the state reverted to a tort-based liability system. Under no-fault, as it was generally termed, an individual's insurer is responsible for payment for injuries and damage resulting from an automobile accident regardless of who caused the accident. Under tort, financial responsibility for those costs lies with the person who causes the accident, or his or her insurer.

Proponents of allowing the no-fault system to expire cited steep increases in automobile insurance premium costs in the years leading up to the 2003 expiration of no-fault. Data from the National Association of Insurance Commissioners indicate that the average premium cost in Colorado increased by \$290.70 from 1992 to 2002, a 38 percent increase, in the decade before the repeal of the no-fault system. Rates increased in other states by as much as 58 percent in Nebraska and as little as 9.5 percent in Connecticut. In 2002, Colorado had the eighth-highest average premium in the country.

The Colorado Division of Insurance estimates that automobile insurance premium rates in Colorado have declined by 10 to 14 percent since the repeal of no-fault. The division also notes an increase since 2003 in the number of carriers issuing policies in the state. Since 2003, members of the General Assembly have debated the impact of the switch including, in 2005, an interim committee established to study the impact of the switch. This issue brief focuses on current automobile insurance coverage requirements and recent action on automobile insurance proposals.

Required Automobile Insurance Coverages

Liability coverage. Under no-fault, policy-holders were required to have at least \$100,000 in personal injury protection to pay for costs such as medical expenses, income replacement, and funeral expenses. With the change to a tort system, consumers are only required to carry liability coverage.

Liability insurance covers bodily injury to another person or property damage to another's vehicle or property when the insured is at fault for an accident. Every owner of a motor vehicle is required to carry the following minimum basic motor vehicle coverage, although higher coverages may be purchased:

- \$25,000 for bodily injury or death to any one person in an accident;
- \$50,000 for bodily injury or death to all persons in any one accident;
- \$15,000 for property damage in any one accident.

Optional Automobile Insurance Coverages

Uninsured/underinsured motorist protection. Uninsured/underinsured motorist protection (U/UI) is now optional in Colorado. This coverage pays for the insured's bodily injury losses caused by a hit and run driver, a driver with no automobile insurance, or a driver of an underinsured vehicle. Uninsured/underinsured motorist coverage takes the

place of the insurance the other driver should have purchased, or protects the insured when the at-fault driver's vehicle is insured, but the bodily injury liability limits of his or her policy are less than the limits of the insured's U/UI coverage. This coverage does not protect the other driver and it does not cover damage to the insured's vehicle. The minimum amount of U/UI coverage an insurer may offer must be equal to the minimum liability coverage. Policyholders may reject such coverage in writing.

Comprehensive and collision coverage.

Collision insurance pays for damage to a vehicle from a collision with another vehicle or object, or from a rollover. While not required by law, collision coverage may be required by lenders as a condition of vehicle financing. Comprehensive insurance protects the insured against other types of damage to his or her vehicle.

Medical payments coverage. Under tort, an individual's health insurance may cover injuries sustained in an accident. However, depending on the health insurance plan, the injured individual may be faced with high deductibles, copayments, or other significant medical costs. As a supplement to health insurance, or in the event the individual does not have health insurance, medical payments coverage can be purchased as part of an automobile insurance package. This coverage pays for medical expenses, including copayments or deductibles, for the insured vehicle driver and passengers, regardless of fault.

Medical payments coverage is generally offered in increments of \$1,000 up to a maximum of \$25,000. Insurers are not required to offer medical payments coverage. The General Assembly considered House Bill 06-1036, which would have required an automobile insurer to offer medical payments coverage to customers who would be permitted to reject such coverage in writing. The bill lost in the House of Representatives.

Consumer Protection Proposals

Much of the discussion raised in the wake of the switch from a no-fault to a tort system concerned consumer awareness of changes in coverage choices and the appropriate level of coverage. In addition, physicians and other health care professionals raised concerns that a lack of medical payments coverage for many insured drivers, reduced policy limits of medical payments coverage, and lengthy delays in determining fault have resulted in reduced profitability of providing trauma care in the state. The General

Assembly has considered several proposals relating to consumer protection.

House Bill 06-1030 requires insurers, beginning January 1, 2007, to use a uniform disclosure form when issuing auto insurance policies.¹ It is hoped that a standard explanation of benefits will improve consumer awareness of the auto insurance coverages available. The bill requires insurers to provide a clear explanation of the products purchased, the amount of coverage purchased, and the applicability of the coverage depending on the determination of fault.

Senate Bill 06-041 clarifies that the state's prompt pay requirements, which ensure payment of claims within a prescribed time frame, also apply to health insurance companies that pay medical bills for injuries sustained in an automobile accident.² Insurers may seek reimbursement for payments made if another party is later deemed liable for payment.

Funding for the Trauma Care System

The switch from no-fault to tort changed the way health care providers are reimbursed for care of auto accident victims. Under no-fault, providers were reimbursed for the total amount of the services by each driver's insurer. Under tort, reimbursement may be delayed until fault is determined and reflects coverage of the at-fault party. If payment is from a health insurer, a provider can expect reimbursement at a managed care discount. Medicaid also typically reimburses providers at a discount. In some cases, individuals are unable to pay for the care of either themselves or another accident victim due to lack of appropriate health or automobile insurance.

In an effort to address the financial impact on medical care providers, the General Assembly considered Senate Bill 06-019 which would have added emergency medical care coverage, including all medically necessary and accident-related emergency medical care, to the list of required automobile insurance coverages. The coverage was required to be provided regardless of fault. This bill was postponed indefinitely by the Senate Appropriations Committee.

¹Section 10-4-636, C.R.S.

²Section 10-6-106.5, C.R.S.