



## Give New York's working families a break: implement Pay-As-You-Drive insurance

### **Auto insurance takes a bite out of working people's budgets.**

Low and moderate income New Yorkers spend a disproportionate share of their incomes on auto insurance. Cash strapped homeowners are often pinched by steep costs of car travel; rural workers must weigh the benefits of their jobs against the costs of a long commute.

### **Our current auto insurance system encourages over-consumption.**

It would be unreasonable for a restaurant to charge the same price for a hamburger as it did for a fancy filet mignon. But that's how our insurance system operates – drivers with equivalent safety records pay the same whether they drive 5,000 or 50,000 miles a year, despite the fact that driving more increases accident risk, fuel consumption and greenhouse gas emissions.

### **Pay As You Drive would create a sensible auto insurance system.**

**Supporting struggling families** : About two thirds of all drivers – and the vast majority of low-income drivers-- would save, at a rate averaging \$270 per car per year.

**Helping the environment**: Transit now accounts for 30 percent of the US's greenhouse gas emissions, and our rates of driving are increasing.<sup>1</sup> Studies have suggested that if New York drivers paid for insurance per mile they'd decrease their driving by about 11.5 percent. If all drivers in the US used PAYD insurance, we'd reduce CO2 emissions by 2 percent and oil consumption by 4 percent.

**Improving safety**: Driving accidents in the US incur staggering costs in human suffering and financial loss. Some studies suggest that reducing vehicle miles travelled would result in a disproportionately larger decrease in collisions.

**Saving Money**: If implemented nationally, PAYD would save the US government \$2 billion in accident costs alone, and much more in secondary benefits like reduced congestion and increased productivity.

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<sup>1</sup> Americans' driving rates have increased at a rate three times greater than population growth since 1970, far outpacing efficiency gains.

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## **How does PAYD work?**

There are different ways to structure PAYD. Drivers might prepay for the miles they plan to use that year, with rebates or extra payments at the year's end if they exceed or fall short of their estimate. Or, insurers could charge drivers monthly for the miles traveled that month. Mileage could be verified by third party odometer audits, drivers' own reports, or, if a driver chose, a box that automatically records and transmits number of miles travelled.

The rate classes that insurers use to measure a driver's risk – such as safety record, gender, geographic location – would remain the same. Policyholders who drive less than their class average would pay less. Approximately two thirds of drivers – and almost all low income drivers – would save in a PAYD system.

Methods -- such as managed risk pools --could be developed to assist the small number of lower income drivers who would be negatively impacted, such as struggling exurban homeowners or low income drivers with disabilities who must drive long distances to access medical care.

## **What New York can do to implement PAYD:**

New York doesn't face insurmountable statutory obstacles to implementing PAYD. What's really needed is a push in the right direction. This could come in the form of a mandate requiring insurers to offer PAYD policies, or incentives, such as tax credits, for offering PAYD. Optimally, states' implementation of PAYD would be part of a broad shift towards a comprehensive mass transit policy that respects the natural environment and serves the needs of all residents.

The federal government also has an important role to play by setting PAYD standards, increasing funding for pilot studies and incentivizing states to take action by making disbursement of highway funds contingent on PAYD implementation.

## **Where is PAYD in effect?**

- In Texas, MileMeter offers the only policy in the US that bills drivers by the mile. Drivers sign up for a certain number of miles; even if they exceed their estimate, they do not become uninsured. Rather, they pay the extra amount when they renew. If they drive fewer miles than expected, they are given credits. Mileage is verified through odometer photographs that policyholders submit online.
- In England, Coverbox offers a policy that allows motorists to pay per mile travelled. A tracking box, placed in the car, transmits mileage information to the insurer and drivers can check their personal usage statistics online.
- In South Africa, Hollard's PAYD policy determines per-mile rates based in part on a driver's estimate of their miles travelled. Premiums are collected on the first of the month, so customers can make frequent (monthly) assessments of their driving habits.