Equity in Auto Insurance: Eliminating the Use of Education and Occupation

Support HB 656

The Problem:

What does your education or your occupation have to do with your auto insurance? It has nothing to do with how you drive, but based on current Maryland law, these factors may drive up the cost of your car insurance.

Why Does This Happen?:

The Maryland Insurance Administration (MIA) allows insurance companies to use a driver's education and occupation to set their auto insurance rate. These factors, along with many other non-driving related factors, have nothing to do with how safe or unsafe a driver may be.

MIA allows auto insurance companies to use non-driving related factors "in predicting the likelihood that you will be in an auto accident in the future or will file a claim for damages."[1]

Predicting the likelihood that you will be in an accident makes sense – predicting the likelihood that you *may file a claim* economically discriminates against low-wage workers, low-income drivers, and drivers of color. Each insurance company determines whether or not they will use education and occupation status when setting a rate, as well as the weight that each of these factors will have when combined with other non-driving related factors, including sex, marital status, homeownership, credit, and ZIP code.

These decisions drive up costs for those with a high school education or a blue-collar job – a lot. In 2017, MCRC released new research outlining the way auto insurance companies drive up these costs for low-wage and low-income workers.[2] The study's findings include:

- Progressive's premiums increased by 8% when educational   attainment dropped from a Master's degree to a High School Diploma.
- For a man, that increase is $102 annually, and for a woman   it's an increase of $138 annually.
- Progressive and Farmers Insurance use occupation in premium pricing.
- Progressive increased   the premium by 2%, or $38, annually for a woman and $28 annually for a man. Farmers increased their premium based on occupation by 0.26% or $8 annually for a woman, but did not increase the premium for a man.

More startling findings were uncovered by the New York Public Interest Research Group (NYPIRG), whose

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[1] Auto Insurance Guide, http://insurance.maryland.gov/Consumer/Documents/publications/autoinsuranceguide.pdf
[2] Taking the Low Road, http://www.marylandconsumers.org/penn_station/folders/consumer_education/reports/Auto_Insurance_Gender_Discrimination_Research_Report___Color.pdf

2014 statewide study looked at fluctuations in auto insurance rates when occupation and education changed.[3] Their research found that:

- GEICO, the state's largest insurer, would charge 19% more annually for a bank teller with a high school degree than for a bank executive with a college degree ($607 vs. $511) – all other qualities being equal. And a high school graduate who worked in retail would pay a whopping 41% more annually than the same bank executive ($722 vs. $511).
- Progressive, the state's fifth largest insurer, would charge 19% more annually for a bank teller with a high school degree than for a bank executive with a college degree ($2,240 vs. $1,890).
- Liberty Mutual, the state's fourth largest insurer, did not appear to consider occupation in their pricing, but did consider education. It would charge a high school graduate 25% more annually than a college graduate ($2,169 vs. $1,730).

A 2015 study in New York by the Western New York Law Center used 1,200 online quotes to test non-driving related factors. Their results echo the NYPIRG study, finding that major insurers increased premiums on drivers with less education and lower-wage jobs by 15% to 24%.[4]

Only 37.3%of Maryland high school graduates obtain a bachelor's degree, while 17% go on to obtain a graduate or professional degree.[5] This means that up to 45.7% of Marylanders could be charged higher premiums if they choose an insurance company that uses education as a factor.

In Maryland, the use of education and occupation to set ratings factors has a disproportionate effect on communities of color and low-income communities. There are strong racial disparities in college graduation rates between African-American students and white students. 55% of African-American students who enter college in Maryland do not obtain a degree.[6] In comparison, only 23% of white students who enter college do not graduate.[7] According to The Hechinger Report, 33% of African American and 23% of Latino adults held at least a two-year degree, compared to 47% of White adults.[8] This education gap exacerbates economic disparities because African-Americans without a degree may

[3] NYPIRG 2014 Study, https://www.nypirg.org/pubs/consumer/2014.4_NYPIRG-auto-insurance-analysis.pdf
[4] Western New York Law Center Study, 2015, http://wnylc.com/wp-content/uploads/2015/09/July-2015-Western-New-York-Law-Center-Auto-Insurance-Report.pdf
[5] MHEC 2016 data book, http://mhec.maryland.gov/publications/Documents/Research/AnnualPublications/2016Databook.pdf
[6] ibid
[7] ibid
[8] The Hechinger Report, College, 2015, http://hechingerreport.org/25368-21/

face higher auto insurance costs.

Without college degrees, many adults in Maryland enter the workforce and face a segmented labor market. Certain fields and sectors require at least a bachelor's degree and tent to be better paid jobs; while jobs that require no more than a high school diploma tend to be poorly paid, insecure, and intermittent. A number of vital service providers throughout Maryland may pay more for their car insurance based upon their occupation. These providers include the following:

- 34,580 child-care service providers[9]
- 10,120 working in warehouse and storage[10]
- 8,070 in trucking
- 143,040 restaurant workers, and many others

Maryland's labor market mirrors national trends in which unemployment rates are consistently higher in communities of color and Black and Latino workers are over-represented in lower-wage positions. Approximately 90% of CEOs in the United States are white. Meanwhile, Latino workers make up 15% of the workforce, but represent about half of all farm laborers, 44% of grounds maintenance workers, and 43% of maids and house cleaners. Black workers (about 11% of the workforce) account for more than a third of home health aides and about 25% of both security guards and bus drivers – relatively low paying jobs.[11]

This labor market segmentation means that low-wage workers, disproportionately workers of color, are employed in fields that require the use of a car-and, by extension of auto insurance that may cost them more than a highly paid executive.

Insurance companies justify the use of these rate factors by noting that the factors are correlated to the likelihood of a driver filing a claim. However, these claims does not stand up to scrutiny. If education and occupation were an actuarially sound factor, all Maryland insurance companies would use the factors

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[9] BLS May 2016 Occupation and Wage Estimates, Maryland, https://www.bls.gov/oes/current/oes_md.htm
[10] ibid
[11] The Atlantic, The Workforce Is Even More Divided by Race Than You Think, https://www.theatlantic.com/business/archive/2013/11/the-workforce-is-even-more-divided-by-race-than-you-think/281175/

– but that's not the case.

	State Farm	GEICO	All State	Progressive	Farmers	Liberty	Nationwide	MAIF
Education	No	Yes	No	Yes	No	No	No	No
Occupation	No	Yes	No	Yes	Yes	No	No	No

As the table demonstrates, not all insurance companies use these factors – the inconsistent usage casts doubt on their predictive ability. The inconsistency of usage and outcomes suggests that claims of correlation are deeply flawed.

Solution:

Marylanders with lower education and lower-status occupations are paid less and are being charged more for a product they are required to purchase by the state of Maryland. This is an issue of economic profiling – pure and simple. To address this issue, the Maryland General Assembly should pass legislation to remove education and occupation from the list of rating factors auto insurance companies use to price their products.