

What is a “standard” tier?

The standard tier represents a company's basic rates. Absent any other applicable risk characteristics, drivers with six or fewer motor vehicle points must be placed in an insurance company's “standard” tier. Preferred or lower-rated tiers may be available for drivers who qualify based on favorable risk characteristics. Likewise, some policyholders with less favorable risk characteristics may be placed in higher-rated tiers. 🚗

What factors are used to determine tier placement?

The premium that a motorist pays for his or her auto insurance is primarily the result of three factors – where one lives, what various risk classifications a driver reflects, and what kind of car is driven. Of course, premiums are also affected by the amount of coverage selected.

The goal of any auto insurance rating system is to develop individual policyholder premiums that reflect each motorist's likelihood of being involved in an accident or suffering a loss in the future. Rating systems are based on the fact that an individual driver's potential for a loss (being involved in an accident, having a car stolen or being sued) is influenced by certain objective characteristics. Rating systems operate by assigning drivers to identifiable groups with similar risk characteristics.

The risk factors each company uses to determine tier placement will be different for each insurance company. Risk characteristics considered important to one insurer won't necessarily carry the same weight with another. Insurance companies choose risk characteristics that are specific and objective and related to the risk involved. 🚗

Do I need to do anything to convert to a tier-rated policy?

No, many insurance companies began converting their policies to the tiered system in October of 1998. If your policy recently renewed, it is likely that it reflects the new tiered rating system. 🚗

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Questions and Answers About Tier Rating



Insurance Council of New Jersey



Tier Rating

What is tier rating?

Reforms have been enacted which eliminate auto insurance company surcharges for motor vehicle violations and accidents. Instead of relying on just two rating levels (non-surcharged and surcharged), insurance companies will use tier systems to determine rates. Tier rating systems take the “complete picture” into account to identify a low risk driver rather than simply penalizing drivers for accidents and DMV violations. The result is that while accidents and violations can still impact your auto insurance premium, other risk characteristics will receive equal or greater weight in determining your premium.

Insurers examined the claim history, driving records and risk characteristics of all their policyholders to develop their particular rating levels or “tiers” for the many different types of drivers and vehicles they insure. The outcome is that auto insurance companies will now have a greatly expanded range of premiums that they can offer to customers. 🚗

Why was tier rating created?

The move to tier rating is the result of legislation passed in June 1997 that eliminated “insurance eligibility surcharges.” Created in 1990 as part of then-Governor Jim Florio’s Fair Auto Insurance Reform Act (FAIRA), insurance companies were required to assess surcharges

(separate and independent of points and surcharges issued by the New Jersey Division of Motor Vehicles) for specific motor vehicle violations and at-fault accidents. The result was that even drivers with good long-term driving records were subjected to heavy penalties in the form of “insurance eligibility surcharges.” It was not uncommon for some low-risk drivers to pay a \$1,000 a year in surcharges for three years.

As more and more drivers were required to pay surcharges, New Jersey consumers demanded a change in the way auto insurance premiums were set. In June 1997, legislation eliminated eligibility surcharges and moved New Jersey to a new and more responsible system of charging automobile insurance premiums – tier rating. 🚗

What is a tier?

A tier is a rating level that is determined by a set of individual risk characteristics. 🚗

How many tiers will a company have?

The number of tiers varies widely from company to company. For specific information you can contact your insurance company or obtain the Department of Banking & Insurance’s Consumer Handbook On Tier Rating by calling 1-800-446-7467. You can also review each company’s tier rating guidelines via the Internet at <http://www.naic.org/nj/NJHOMEPCG.HTML> 🚗

How do I know what tier I’m in?

Your insurance company must state the tier level used to rate your policy on either the declaration page or some other notice that accompanies the renewal of your policy. You should also receive an explanation of your company’s tier-rating plan when you apply for new a policy. 🚗

Why have some people’s rates increased even though they have no points on their driving record?

Some people will see an increase in their premium because of tier rating, while others will see a decrease. The tier rating law mandates that implementation of tier rating be “revenue neutral.” This means that an insurer cannot collect more in total premium from their policyholders because of tier rating. However, the distribution of the premiums charged will change. According to the Department of Banking & Insurance, the rates charged for approximately 53 percent of all vehicles insured will remain the same or decrease.

Tier rating should not be confused with the mandatory premium rate reduction that will begin on March 22, 1999. The rate reduction is part of a reform law (Automobile Insurance Cost Reduction Act or AICRA) that became law in May 1998 and will reduce premiums by approximately \$700 million. 🚗