

# *Science You Can Use*

Jack K. Horner

**Dear Science:** There are lots of ads on TV for car repair insurance. They sound like good deals. Are they? -- Buck R.

**Dear Buck:** Here's what companies that sell "mechanical breakdown insurance", commonly called "car repair insurance", would like you to believe about their products. You buy a repair insurance policy from them. When your car needs a repair, you take it to an auto repair shop, and the insurance company pays for the repair. TV commercials for car repair insurance are filled with testimonials of policy holders who have "saved thousands of dollars".

Not surprisingly, these commercials do not feature praise from policy holders who paid more in insurance premiums than the out-of-pocket cost would have been for the repairs on their vehicles. Whether a car repair insurance policy makes sense for you depends on several factors, including the cost of the policy, what it covers, what repair shops will accept such policies, deductibles, and whether you can tolerate financing the cost of a major repair out-of-pocket. As always, the "fine print" of any insurance policy matters.

Let's look at some details. Any for-profit company operating in a free, competitive market has to take in at least as much money as it spends, or it will go out of business. Moreover, in the long run, any such company has to take in more than it spends if it is to attract investors. How much beyond actual expenses companies charge their customers is whatever the market will bear. Insurance companies are no exception to these principles. This means that not every policy holder can "save thousands of dollars". All else being the same, for any insurance contract to work, some policy holders must pay more in premiums than they will receive in benefits.

*Does a car repair policy cost more than paying for the repairs out-of-pocket?* According to the American Automobile Association, the average cost of repairs for a passenger vehicle is about ten cents per mile. If you drive 10,000 miles per year, you can expect to pay about \$1,000 per year (about \$80/month) for repairs; if you drive 20,000 miles/year, repairs are likely to cost you \$2000/year (about \$165/month). If the cost of a car repair policy is more than these amounts, you can expect to pay less for repairs out-of-pocket than you would pay for the policy.

*What does a car repair policy cover?* All car repair insurance policies contain restrictions on what repairs they will cover and how much they will pay for such repairs. Typically, these policies exclude amounts paid for by warranties provided by other companies or exclude specific coverage during the warranty periods of such policies. For example, suppose you buy a new car, and it comes with a 100,000-mile warranty that pays for all "drive-train" (e.g., engine, transmission, differential, axle, continuous velocity joint) problems that occur in the first 100,000 miles. In such cases, some car repair policies will not pay for any drive-train repairs that occur during this 100,000-mile period. Or the policy may pay only for the difference between what the warranty pays and some maximum set by your car repair policy.

Most car repair policies do not cover routine maintenance such as fluids (e.g., oil, coolant) changes, brake-pad replacement, engine tune-ups, suspension alignment, wheel balancing, corrosion, rust, and tires. Typical car repair insurance policies do not cover collision damage, either. Almost all car repair policies have deductibles. These deductibles are typically \$500 to \$1000 per year and reset each year.

Some car repair policies will reimburse policy holders on a sliding scale that decreases with the number of miles on, or the age of, the car. For example, the policy may pay for the full cost of a new engine if your car has 50,000 miles, but the policy might pay only 20% of that amount at 125,000 miles. Most car repair insurance policies will not insure cars with more than 150,000 miles. This mileage varies by policy and can be less than 100,000 miles.

Most car repair insurance companies will not accept a claim for a repair that was performed earlier than several months after your policy starts. Your policy may require you to hold the policy for a minimum period (such as a year), or you will have to pay a policy cancellation fee that is a large fraction of your remaining costs under the minimum policy period.

*Are repair shops required to accept auto repair of insurance?* They are not. If a car repair shop does not accept your car repair insurance in lieu of payment by you, you will have to pay the repair shop for its work, then request a reimbursement from your car repair policy company.

In short, if you can afford to pay for major mechanical repairs out-of-pocket, you are better off doing so. If not, car repair insurance might work for you.

For more information, see Jason Metz, “Is Car Repair Insurance Worth It?”, *Forbes Advisor*, 2021, <https://www.forbes.com/advisor/car-insurance/car-repair-insurance/>.

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*Jack Horner is a systems engineer.*