

# Money TALKS

Should I Be Listening?

## Car Costs

What kind of car is right for you? A black sports car? A red truck? A silver economy car? Uncle Henry's old minivan?

If you are like most people, the biggest thing that will affect your next car choice is money.

How much money can you afford to spend on a car?

## CAR COSTS

### INSURANCE TALK

KEEPING DOWN THE  
HIGH COSTS OF INSURANCE

### BEFORE YOU GO CAR SHOPPING

ONCE YOU FIND THE RIGHT CAR  
WARRANTY INFORMATION



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MONTHLY

# CAR COSTS

Being able to afford a car involves more than being able to make the monthly payment. So what exactly goes into monthly car costs?

## Monthly Car Costs

### Monthly Payments

If you don't have enough cash saved up to buy a car, you will need to get a loan. Most lenders require you to put a down payment on the car, as well as make a minimum monthly payment until you have paid off the loan. If you haven't established credit yet or you are not 18 years old, you may need a co-signer to get the loan. When financing a loan, the lender will require you to have full insurance coverage on the vehicle.

### Insurance

Any car you drive is required by law to have a minimum amount of liability insurance to protect others in the event you harm them or their property. Insurance costs vary depending on where you live, your age, your gender, the type of car you drive, your driving record, and more. For example, in California you need at least 15/30/5 coverage. However, it is recommended that you purchase 100/300/100 coverage or even 300/500/100. The higher coverage costs more, but should you need it, it pays for more medical and repair costs for the people or property that you hit. See the Insurance Talk section on p. 5 to learn more.

### Gas

A regular cost you can count on is gasoline. With high gas prices, this cost will add up quickly. Gas is especially costly if you drive a big car, a car with a big engine, or any car that you drive frequently or long distances or that is poorly maintained. Before you purchase a car, know the vehicle's MPG—that's how many miles per gallon you can drive on a gallon of gas.

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## Help Jess Out

Jess is hoping to buy a used 4 X 4 sports utility vehicle. The gas mileage for the model he wants is 15 miles/gallon. At \$2.75 per gallon, how much would gas cost if the 4 X 4 is driven 300 miles per month?

Answer: 300 miles per month  
divided by 15 miles per gallon =  
20 gallons per month. 20 gallons  
times \$2.75 per gallon = \$55.00.

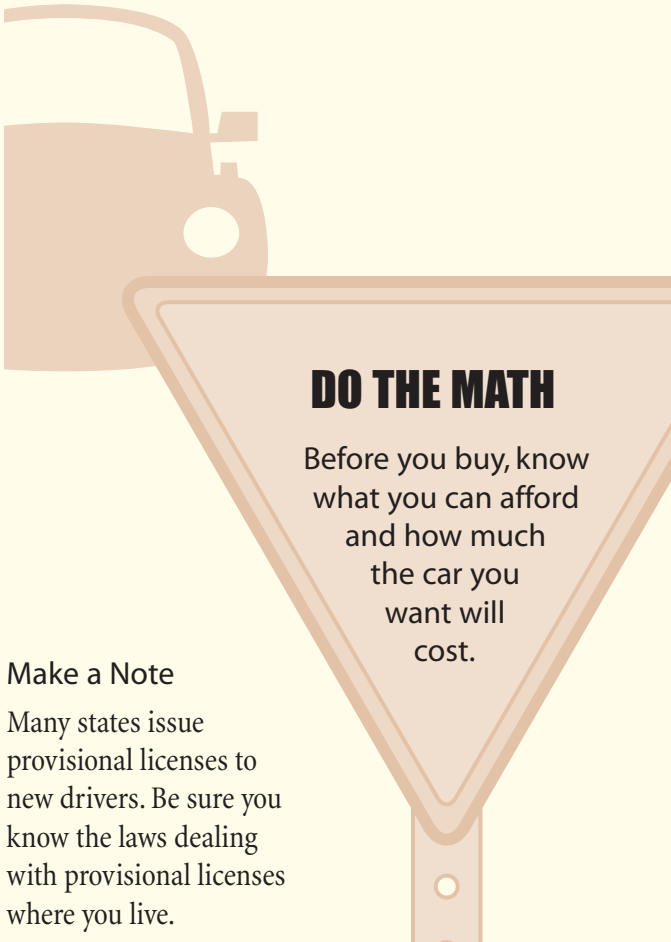
Visit [www.moneytalks.ucr.edu](http://www.moneytalks.ucr.edu) to calculate the cost of gas based on prices in your area.

## Maintenance and Repairs

Putting oil in the car, replacing a dead battery, and buying new tires are a few other maintenance costs car owners pay. An oil change is at least \$20. You'll probably need to change your oil every 3,000 - 5,000 miles. A new battery easily costs \$50. A new set of tires for a compact car is more than \$200, with tires for big cars being much more!

## Registration

Every year you must register your car with the Department of Motor Vehicles (DMV). Registration fees are lower for less expensive and older cars – maybe \$100 a year for an older mid-size truck, as opposed to close to \$500 for a new big truck. Some states, including California, also require you to get a smog check every two years for vehicles 5 years and older. A smog check costs \$45 or more.



## DO THE MATH

Before you buy, know what you can afford and how much the car you want will cost.

### Make a Note

Many states issue provisional licenses to new drivers. Be sure you know the laws dealing with provisional licenses where you live.



## Help Alexis Out

Alexis bought a used car a year ago for \$10,000.

Her monthly loan payments are \$221  
(*Yearly costs = \$221 x 12*)

Last year Alexis paid the following:

Gas and oil	\$750
Maintenance / Repairs	\$143
Registration	\$167
Insurance	\$876

What are the total yearly costs? \$

What is the monthly cost? \$

(*Yearly costs divided by 12*)

Answers:  
Total Yearly Costs = \$4,588  
Monthly Costs = \$382



## CAR COSTS YOU MAY NOT HAVE THOUGHT ABOUT

### Depreciation

This is the loss of value to your car due to age and use. For a new car, the depreciation in the first year is 20% or more. That means a new car that cost \$15,000 would only be worth \$11,000 - \$12,000 after one year. While depreciation may not seem like an expense, if you want to sell your car, you may owe more than the car is worth.

### Traffic Tickets

These can range from \$30 for a minor parking violation to hundreds of dollars for a moving violation such as speeding. Plus, insurance rates go up about 15% after just one moving violation. Attending traffic school can help keep your insurance rates lower, but you still have to pay for the ticket and for the cost of traffic school. This will probably cost you more than \$300.

### Accidents

These will also increase the cost of your auto insurance if you caused the accident.

### Driving Under the Influence

A DUI ticket can cost you thousands of dollars and time in jail, plus your license will be revoked. Never drink and drive, at any age.

### Rides for Friends

Being a taxi for friends who don't have wheels may make you popular, but it will cost you. Gas, maintenance, repairs and even your insurance costs may go up because you're driving more.



There are two main kinds of insurance. One pays for damage and injury that you cause to others. The other pays for injury and damage to you and your property. Let's take a look at both of them.

## INSURANCE TALK

### **Insurance That Pays for Damage and Injury You Cause to Others**

#### LIABILITY

This pays for injury to other people and damage to their property when you cause an accident. Every state requires that all drivers have a minimum liability coverage. In California the minimum coverage is 15/30/5.

Liability insurance coverage is written in three numbers which represent thousands of dollars, such as 15/30/5 or 100/300/100. The first two numbers refer to bodily injury (someone is hurt); the third number is for property damage.

A policy written as 15/30/5 means that for an accident you cause, your insurance will pay up to \$15,000 for bodily injury per person, but no more than \$30,000 for all persons. This coverage will also pay up to \$5,000 property damage per accident.

If you have 100/300/100 coverage, your insurance will pay up to \$100,000 for bodily injury per person, but not more than \$300,000 for all persons. This coverage will pay up to \$100,000 for property damage.

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## INSURANCE TALK (cont.)

### Case Study:

You caused an accident. Four people are injured at the cost of \$40,000.

The car you hit has \$6,000 in damage. How much would your insurance pay if you have 15/30/5 coverage? How much would your insurance pay if you have 100/300/100 coverage?

*(Answer: With 15/30/5 coverage – the insurance company pays bodily injury at \$15,000 per person. However, the maximum it will pay is \$30,000 per accident. For this accident, the insurance company will pay \$30,000. Who pays the extra \$10,000? You do! As for the damage to the car you hit, your insurance will pay \$5,000 and you have to pay the extra \$1,000.*

*Since most people do not have the extra money to pay what the insurance company doesn't cover, financial experts recommend a 100/300/100 or even 300/500/100 policy. With this coverage, you would have no out-of-pocket expenses for this accident.) However, you may find that your insurance rates will increase after the accident.*



### Insurance That Pays for Damage and Injury to You and Your Property

#### UNINSURED MOTORIST

This pays for bodily injury to you and your passengers should you be in an accident caused by someone who is driving illegally without liability insurance. This coverage also pays if another person causes the

accident and they don't have enough insurance to pay your medical expenses. You may even want to buy the deductible waiver coverage so you won't have to pay the deductible when an uninsured motorist hits you.

#### MEDICAL

This pays your medical costs if you are at fault in an accident. Consider adding this coverage if you cannot afford hospital bills.

#### COMPREHENSIVE

This pays for damage to your car by theft, wind, vandalism or any means other than a collision. This coverage will help you pay for repairs or replacement of your vehicle, after you pay the deductible.

#### COLLISION

This pays for damage to your car caused by a collision. If you crash your car, this insurance would help you pay to repair or replace your vehicle, after you pay the deductible.

#### TOWING & ROAD SERVICE

If your car breaks down, how would you get it to the repair shop? If you have towing insurance, your car can be towed to a repair shop at no charge. Usually very inexpensive, towing insurance could be a good investment if you do not have this coverage in your auto warranty or through an automobile club.

#### THE DEDUCTIBLE

A deductible is the amount you will have to pay to repair damage to your car before your insurance company will pay a cent. Your deductible can be as little as \$50 per incident, or even as high as \$1,000 per incident. The smaller your deductible, the higher your insurance rates. Here's how it works. If you have a small deductible, say \$100, your insurance company will pay for covered repairs after you pay the first \$100. If your deductible is larger, say \$500, your insurance company will pay only after you pay the first \$500. Since the insurance company will probably have to pay more to repair your car if you have \$100 deductible, they charge you more for the low deductible. Ask yourself, "How much can I afford for a deductible if I caused an accident?" Choosing the highest deductible you can afford will save you money on your insurance premiums.



# Keeping DOWN

*the*

# HIGH

*Costs of*

# Insurance

## Insurance will cost you more if:

- ❑ You are a male—statistics show males have more accidents than females, therefore insurance rates are higher for boys and men.
- ❑ You're under 25—again, statistics show that young drivers are more likely to be in an accident than drivers over age 25. Some insurers base rates on the number of years you've been driving rather than your age.
- ❑ You drive a lot—the more you drive, the more likely you are to have an accident. Insurance rates go up when you drive a lot.
- ❑ You live in a big city—insurance costs more in a city than in the country. When a lot of cars drive in the same area, there are bound to be more accidents.
- ❑ You have a bad driving record—drivers who have received traffic tickets or caused accidents have higher insurance rates than those who have clean driving records.
- ❑ Your car is likely to be stolen—the more likely your car is to be stolen, the higher your insurance premiums. Sports cars and expensive cars are stolen more often than less expensive family cars. You can check the Internet for a list of the most frequently stolen cars.
- ❑ Your car is expensive to repair—the more expensive your car is to repair, the higher your insurance premiums will be.

### Keep Your Rates Down

**Use your good grades.** Many insurance companies give a discount for drivers who have a B average or better in school.

**Add to your parents' insurance policy.** Insurance is usually cheaper if you are added to your parents' policy rather than buying your own.

**Comparison shop.** Compare the coverage and rates from at least three companies to find the best deal.

# Before You Go Car Shopping

Know what you can afford. Look at your income and expenses to figure out how much money you have to spend on a car. How much of a down payment do you have? How much can you afford to spend each month on your car loan? To operate your car? To pay for insurance?

If you need a loan, get credit approval before looking for your car. Shop for the lowest annual percentage rate (APR) available. Sign-up for the shortest loan term you can afford. (You will pay less interest if you pay off your car loan in 3 years rather than 4 years.) Remember you need to be 18 years of age or older to get credit in your own name.

Know what you need. Think about how you will use your car and figure out what type of vehicles suit your needs.

Know what your insurance will cost. Ask your insurance agent for quotes on several styles of cars you would be interested in.

Research what your car will cost. Find information about the car online, such as gas mileage, maintenance schedule, and the estimated fair value. Also ask friends or family with similar vehicles about their expenses.

Find reputable dealers. Ask family and friends where they have had good experiences buying a car.

Don't shop alone. Ask an experienced buyer to go with you as you look at cars.

Read and understand the ads before you go to a dealer, including the fine print.

## PRE-OWNED SPORTY CAR

*This beauty will go fast!*

Power window & locks, CD, A/C and more! 37k miles! Very sharp!  
Only \$8,326\* or \$98\*\* per month

\* Tax, tags, and extra fees.

\*\* Payments based on 1/3 down, 84 months financing 11% APR OAC.

Look at the ad on the left.

How much of a down payment is required?

How many years would you have to pay for this car?

What is the APR?

What is the total amount paid on the loan?

What is the total cost paid for this car?

(A lot of this information can be found in the fine print.)

When you go to buy a car try to put your emotions aside. Use facts to help you buy the best car for your needs.

Answers:

1)  $\$2,775$  - that's 1/3 of the price of the car [ $\$8,326 \div 3 = \$2,775$ ]

2) 7 years - YIKESI! [ $84 \div 12 = 7$ ]

3) 11% - you may find a lower APR by shopping around

4)  $\$8,232$  [ $\$98 \times 84 \text{ months} = \$8,232$ ]

5)  $\$11,007$  [ $\$2,775$  down payment +  $\$8,232$  total monthly payments =  $\$11,007$ ] and that's not including the other car costs like gas, insurance, or maintenance.

Now ask yourself – is this really a good deal?





## Once You Find the **Right Car**

Test drive the exact car you are purchasing—not just a similar one.

Inspect the car in daylight for damage or broken parts.

Make sure the doors, hood and trunk open and close easily.

Match the Vehicle Identification Number (VIN) found on the dashboard or driver's side door with the VIN on the title and other documents that you sign.

Be sure all options listed on the window sticker are present and working correctly.

## **Auto Loan Reminders**

- You must be at least 18 years old to get credit in your own name.
- Get credit approval from a credit union or bank before looking for a car.
- Shop for the lowest annual percentage rate (APR) available.
- Sign up for the shortest loan payment you can afford. The longer the loan, the more you will have to pay in interest.

## **Before You Drive Away**

Become familiar with your car so you can start the engine and properly operate all the equipment.

Locate the spare tire and jack and be sure you know how to remove and use them.

Ask for any extra sets of keys, key fobs or remotes.

Be sure you have the bill of sale, warranties, licensing information, owner's manual and maintenance schedule.

Sign on the dotted line only after you are certain that you received everything that was agreed to and that all is in good working condition.

Drive away knowing you were a smart shopper.





# Warranty Information

Know what kind of warranty comes with your car. A warranty is a guarantee by the maker or seller to stand behind their product. The warranty pays for repairs to your car. Warranties vary a lot – some warranties cover most repairs, others cover very few repairs. Whatever warranty you get, be sure it's in writing.

**New** – New cars include a manufacturer's warranty - never pay for it! Be sure to ask exactly what it covers. They usually offer broad coverage for a minimum of three years or 36,000 miles, whichever comes first.

**Used** – Used cars may or may not be sold with a warranty. Newer used cars may still carry the remaining portion of the manufacturer's warranty, while others may have a warranty offered by a dealer.

**As Is** – A car sold "as is" comes with no warranty at all. You will be responsible for any problems or repairs.

**Extended** – This is a warranty you pay for. Auto dealers offer "extended warranties" that extend or expand warranty coverage on both new and used cars. However, because they cost extra and are sold separately, they are more accurately known as service contracts. Extended warranties are usually expensive so be sure you know what it will cover and what it will cost before you sign up for one. Also, check to make sure it does not duplicate coverage you have under your free warranty. Use your shopping savvy to negotiate a lower cost for a warranty.



## Auto Insurance: It's the Law

If you cannot prove that you have insurance, you may be fined or have your vehicle impounded. If you are in an accident and do not have insurance, you will have your driver's license suspended.



## Did You Know?

The web is a good place to begin your research for a car. Start with the U.S. government for reliable information. Visit [www.ftc.gov/ftc/consumer.htm](http://www.ftc.gov/ftc/consumer.htm). Click on "automobiles" to find information on how to buy a new or used car, sales tactics, and more.

*Money Talks... Should I Be Listening?* Is a series of five teen guides designed for teenagers. The topics and subject matter content are based on the results of a survey completed by teens. The goals of these teen guides are to assist teens in 1) identifying their money spending and saving habits; 2) understanding the importance of long-term savings, and 3) developing savings plans that meet their lifestyles. Comments regarding these newsletters can be addressed to: Consumer Economics Department, University of California Cooperative Extension (UCCE), 135 Building C, Highlander Hall, Riverside, CA 92521. Author: Katherine Wassenberg, freelance writer. Development Team: Shirley Peterson, Margaret Johns, Charles Go, Susan Cortz and the UCCE Money Talks Workgroup; Graphic Designer: Kerry Decker, UC Riverside. 2007



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