Can I Change the Effective Date of my Policy?

1. My automobile policy renews between January 1st and March 31st, can I change the effective date of my policy in order to get the new rates?

The simple answer is "yes", but we do not necessarily advise that you do so and strongly recommend that you speak with your insurance agent and/or insurance company before doing so. Canceling your policy early and renewing under a new policy with your company, or even with a new company, has many unintended consequences.

Insurers and Insurance producers are not allowed to cancel and rewrite a policy to take advantage of new rates. However, all drivers are allowed to cancel their policy at any time. If your policy renews between January 1st and March 31st, you can cancel your policy after April 1st. When you cancel your old policy and get a new policy, your new renewal date will enable you to take advantage of the new rates. However, you will be assessed a short rate value for canceling your old policy if the cancellation is more than 30 days from the renewal date. Moreover, if next year's rates increase, you would incur that increase much earlier than you would if you had kept your renewal date the same. The amount of the short rate value may cancel out the benefit of canceling your current policy to take advantage of the new rate.

You should check with your insurance producer or company to determine what your overall savings might be.

2. Am I allowed to switch automobile insurance companies before my policy term ends?

Private Passenger Automobile Insurance policyholders are allowed to switch companies at any point during their policy, or when their policy term expires. If you change companies during a policy period, you may be assessed for early cancellation. This assessment is called a "short rate value."

3. What if I want to cancel my policy in the first 30 days of my policy term?

There is no short rate value for canceling your automobile policy in the first 30 days.

4. How do I switch automobile insurers?

Switching automobile insurers is a simple process. You should contact your insurance producer in order to understand all of the effects that switching companies will have on your policy. All you have to do is purchase coverage from a new insurer and inform your producer or insurance company of your old policy. Your new insurer will send a notice to your old insurer and your old policy will be cancelled effective to the date of that notice. You will then receive a refund of any unearned premium that you have paid, minus any short rate value that might apply.

5. Is there a penalty for canceling before my policy term ends?

Yes. Insurers are allowed to assess something called a "short rate value" to any policy holder that cancels his or her policy before the end of the policy term. The purpose for this short rate value is to allow the insurer to recoup administrative costs associated with writing, administering and canceling your policy. The amount of the short rate value decreases as your policy renewal date gets closer.

In addition, insurers will also retain any earned premium. This is the amount of premium that covers the length of time your policy was in effect. For example, if you cancel your one-year auto policy after 6 months, your policy will have been in effect for 50% of the one year policy period. Therefore, the insurer has earned 50% of the total premium on your policy. If your premium was $1,000 for the year, the company would retain $500 as earned premium and issue you a refund for any premium that you paid over and above this amount. This refund will be reduced by any short rate value that might apply.

If you cancel your policy at any time during the first 30 days – no matter what the reason – your insurer cannot apply a short rate value. You will only have to pay whatever earned premium would apply for your brief coverage period.

Let's use an example to see how earned premium and short rate values are calculated:

Doug Driver has a policy that renews every February 20th. His premium for the period of February 20th, 2007 through February 19th 2008 is $1,000 and he paid his entire premium up front. Doug wants the average 11.7% rate reduction and thinks that if he changes companies he will take advantage of this new rate. He decides to cancel his policy and rewrite a new policy on April 10th. Doug's old insurer is entitled to the premium that they earned by covering Doug's car from February 20th through April 10th. Based on the earned pro rate tables, this amount is 13.45 of his annual premium – or $134. This means that Doug will get a refund of $866. However, since Doug cancelled his policy early, his old insurer gets to apply a short rate value and deduct it from his refunded premium. By canceling in the second month of his policy, Doug's short rate penalty is the highest allowed – 5.5% of his total premium, or $55. This brings his refund down to $811.

Assuming that he is an average driver and has not had any change in his driving record or coverage level, his new policy will be based on the new rates and is likely to be 11.7% lower than his old policy. This means that his new policy will probably be $883 for a policy period of April 10th, 2007 through April 9, 2008. When we add the earned premium on the old policy, the short rate value, and the premium on the new policy, Doug will probably pay $1,072 for automobile insurance from February 20th, 2007 through April 9th, 2008 – a period 13 months and 20 days.

What would he have paid if he decided to stay with his original insurer? We already know that Doug's coverage from February 20th, 2007 through February 9th 2008 would cost him $1,000. When his policy renews on February 10th, 2008, it will probably be 11.7% less than the current period – or $883. The portion of that premium that applies to the period of February 10th, 2008 through April 9th, 2008 is $118. This means that the total amount that Doug would pay for that same time period of February 20th, 2007 through April 9th 2008 if he stays with the same company is $1,118

So, if Doug switches companies, he will definitely save money, but he will not save 11.7%. By switching companies, Doug will pay $46 less than if he stays with the same company for the entire 14 month time frame. The short rate value means that Doug will only save 4.1% - not the 11.7% he was expecting.

Anyone considering switching companies should also keep in mind that if they rewrite with a new company, the new company will likely require a down payment. In our example, Doug pays his premium up front, but many people pay with installment plans. Companies can require that new policyholders pay up to 30% of the premium up front in the first year of the policy. Furthermore, your old insurance company might not refund your unearned premium, less a possible short rate value, until after your new policy is in effect. That means you may have to pay up to a 30% down payment before you receive any refund from your old company.

6. Are there any instances when the short rate value does not apply?

Yes. As stated above, any time a policy is cancelled in the first 30 days, there is no short rate value. Companies may waive the short rate value. In addition, state law provides five additional exclusions. No short rate value will apply to early cancellations because:

1. The policyholder has disposed of the automobile, and the policyholder takes out a new policy with the same company on another automobile effective within thirty days of the date of cancellation;

2. The policyholder's automobile is repossessed under terms of a financing agreement;

3. An automobile is cancelled from a policy, the policy remaining in force on other automobiles, or if there remains in force in the name of the insured or his spouse, if a resident of the same household, and in the same company, a concurrent automobile policy covering another automobile

4. The policyholder enters the military service of the United States of America; or

5. The policyholder deletes or reduces any coverage and the policy remains in effect for other coverage.

7. What if I have more questions?

You can contact your insurance producer (agent), insurance company or the Division of Insurance's Consumer Services Section at 617-521-7794.