



Minimum Financial Responsibility Requirements: What are the Real Costs?

According to FMCSA, there are approximately 288,000 general freight carriers subject to federal liability insurance requirements operating 2.8 million power units¹ - 246,000 of those carriers are subject to the \$750,000 liability insurance minimum requirement.² 98% of those carriers have liability insurance policies of at least \$1,000,000 due to current market demands.

OOIDA's membership, which includes more than 150,000 owner-operators, on average pays a premium of \$5,500 per truck.

Raising the insurance minimums will not impact the mega-carriers who are advocating for this increase. It will however, greatly impact the small businesses and owner-operators who are vital to the trucking industry and among the safest drivers on the road. OOIDA's average member has twenty years of experience and over 2,000,000 accident-free miles. Raising insurance premiums will actual detract from safety as small businesses will not be able to compete.

It is difficult to calculate how increases will impact the industry, as a complex analysis of risk exposure and capitalization must be conducted, but based on basic research, calculations and conservative estimates show that just a 5% increase in premiums per power unit will add approximately \$779 million in costs to the trucking industry.

Although the minimum liability rates haven't been raised since the 1980's, 99.9% of the damages associated with truck accidents fall under existing liability requirements. A report released by the John A. Volpe Transportation Center concluded that "most crashes result in small costs: and the average is around \$18,000,³" which is well below the current required minimum. Volpe did note that "The average cost of a crash has increased in the past 30 years, but it has been more than offset by a reduction in crash frequency."⁴

¹ Hymel et al., *Financial Responsibility Requirements for Commercial Motor Vehicles*, Volpe (Nov 2012), pg. 26.

² The remaining carriers are subject to higher regulatory insurance requirements of \$1,000,000-\$5,000,000 due to the type of freight that they haul (oil, hazardous materials).

³ *Financial Responsibility Requirements for Commercial Motor Vehicles*, pg. 20

⁴ *Ibid.*, pg. 16

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Premium rate increase	Average premium per power unit†	Total premium cost for trucking industry	Increase in premium cost to trucking industry
5%	\$5,775	\$16,357,849,200	\$778,945,200
10%	\$6,050	\$17,136,794,400	\$1,557,890,400
20%	\$6,600	\$18,694,684,800	\$3,115,780,800
30%	\$7,150	\$20,252,575,200	\$4,673,671,200
40%	\$7,700	\$21,810,465,600	\$6,231,561,600
50%	\$8,250	\$23,368,356,000	\$7,789,452,000

† Based on 2,832,528 power units X \$5,500 per unit = \$15,578,904,000 current industry cost for \$1M coverage

While the costs of health care and legal representation have risen over the past three decades, wages for the trucking industry have fallen due to rising overhead and standard compensation practices. Supporters of raising the minimum requirements point to the flawed CPI formula as part of its rationale. If we apply the same the CPI formula as the American Association for Justice to the trucking industry, we find that the gross revenue in 2000 was \$127,441, whereas expenses were \$84,983, which equates to a net income of \$40,787. In 2012, the gross revenue increased to \$191,212 but the gross expenses were \$143,880 and the net income was \$50,000. In other words, despite the increase in net revenue, the CPI purchasing power of the owner-operator decreased \$4,196 during those twelve years (by looking at the mode net income of the owner-operator, \$40,000, and CPI would render a \$14,196 loss in equivalent dollars).⁵

Raising insurance premiums will not address the less than 1% of accidents where the damages exceed existing levels. Allowing an agency charged with the task of safety to control insurance premiums will actually cause highways to become less safe and will drive small business from the trucking landscape.

⁵ 2012 Owner-Operator Member Profile Survey, OOIDA Foundation (2012).

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