

# Totaled vehicles - should I lease a new one?

By Jennifer Valencia

Unlike the traditional insurance market, WCIA provides members the option to insure vehicles with replacement cost coverage. Under this agreement, members that opt into the coverage may have totaled vehicles replaced with brand new model year vehicles. This coverage differs from the traditional market because it can improve the member's position as compared to pre-loss (i.e., you now have a brand-new car instead of an older one). WCIA designed this to help with the budget uncertainty buying a new vehicle can have on members' financials.

A few of WCIA's members have begun considering leasing when replacing their vehicles. Each lease brings with it different considerations for who owns the vehicle and what the financial obligations are should it become damaged. One of WCIA's members recently experienced a total loss on a vehicle they owned and had opted for replacement coverage on. The member was considering two options: replacing the vehicle with a brand-new owned vehicle or replacing with a new lease program they had been offered by a private rental car company.

Under the policy, members are given one year to replace the damaged vehicle and are compensated for their actual incurred cost. Here is the snippet of coverage language from WCIA's Auto Physical Damage Self-Insured Coverage Document:

C. *LIMIT OF COVERAGE*

2. *With respect to member owned autos valued \$50,000 or greater and if the Member's Schedule of Values on file with WCIA specifies replacement cost coverage, we will, at our option:*
  - a. ***Pay for the cost of repairing the damaged or stolen property with a part or parts of like kind and quality, without deduction for depreciation; or***
  - b. ***Reimburse the member for their cost to replace the entire covered auto and its permanently attached equipment with a new comparable auto and new comparable attached equipment. The member shall have twelve (12) months from the date of loss to replace the damaged vehicle and equipment.***

In this example, the member chose to replace their totaled vehicle with a leased vehicle. The lease agreement gave them growing ownership interest in the vehicle over the life of the lease, but at the initial stage, the private rental car company owned the vehicle. This brings two questions: what does WCIA pay towards the new vehicle in this situation and how should this new vehicle be scheduled with WCIA for coverage?

The member submitted their lease agreement invoice and asked WCIA to pay the capitalized price of the vehicle in the lease (\$76,000) although they had only incurred \$1,500 in signing the lease. As previously mentioned, for WCIA to reimburse the cost of a replacement vehicle, the cost must be incurred. The capitalized price on the lease was approximately \$76,000 for a five-year term, but the member did not own the new vehicle. The actual cash value on the damaged total loss vehicle was approximately \$40,000. As the replacement cost was only \$1,500, and the actual cash value was \$40,000, WCIA owed the member the actual cash value of the totaled vehicle rather than the cost of engaging in the lease. In this situation, if the member had replaced with a newly owned vehicle, WCIA would have owed for the entire cost incurred (\$76,000). For a situation like this, consult with the assigned claim representative on how you will be reimbursed in order to make a fully informed decision on how to replace the totaled vehicle.

Separately, this new vehicle raises questions of how to schedule it with WCIA to ensure compensation in line with the lease should the new vehicle be totaled. This question will be lease dependent as each lease will have different terms and conditions. Members should contact their risk management representative to review the lease and look for their "insurable interest" or what portion of the vehicle the member is responsible for should it become damaged.

WCIA staff want to make sure members know what to expect in the event of a loss before financial decisions are made. Engaging with the claim representative on the various replacement scenarios and the risk management representative on how to appropriately schedule vehicles will save potential headaches on the back end.