Service Contracts on Vehicle Purchases: Findings from a New Survey

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Abstract

Individuals use many means of managing risks and uncertainties in their lives, including savings, education about risks and their management, diversification, healthy lifestyle, and various kinds of insurance. In the financial area, the authors have previously written about some specific risk-management strategies associated with various debts and known as debt cancellation/debt suspension agreements, credit insurance, and GAP protection on vehicle financing (sometimes called Guaranteed Asset Protection). This paper looks at another means of managing risk involved in vehicle ownership: vehicle service contracts. It examines results of a 2023 nationwide representative survey of vehicle buyers to provide new information on frequency of purchase of service contracts, characteristics of purchasers, and circumstances of the purchase transaction. It finds that evidence about purchases of service contracts is consistent with demand variables in a normal model of demand for the product rather than any finding of ad hoc explanations like excess sales pressure placed by sellers upon buyers.

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JEL Classification: G22, G23, G51

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I. Introduction

Everyone knows that aspects of human life can have variable outcomes, that is, they entail risk and uncertainty. In some cases, bad outcomes can also involve substantial expense. Basic health is one of these: Health conditions are variable and health care can be very expensive for the unhealthy or the unlucky. High and variable expenses in this area have spawned a massive public-policy debate over the past few decades: Can these variations be mitigated, and who should pay for the expenses of care?

Such variable and potentially expensive outcomes of normal life quickly become candidates for risk-management strategies. Common ones include insurance in many personal and business situations. Other strategies include diversification and hedging in the investments area; drivers' education, maintenance, garaging, and avoidance of adverse weather in the vehicles area; savings as part of personal financial risk management; periodic component inspections and maintenance as part of home ownership; and a lifestyle compatible with good health. These latter strategies are all available on a self-help basis, but there also are others available commercially, including warranties and various forms of maintenance and service contracts on common consumer products available in the marketplace.

To employ a basic generalized definition of the latter commercial risk-management devices/protections, what we can call "coverage" is a contractual agreement whereby one party (the "purchaser") makes an implicit or explicit payment to the other party (the "provider") and the provider agrees to undertake specified actions as needed for covered events and conditions, also designated in the agreement. Covered risks must be (at least largely) out of the control of the purchaser and adverse events sufficiently infrequent that the payment required from potential purchasers is not so high as to make purchase prohibitive for them. Payments must be sufficient, however, that they allow the provider to cover all its costs and risks while still generating a profit sufficient to stay in the business. Depending on specifics of the risks and arrangements, professionals known as actuaries may use experience and mathematical probability theory to examine frequencies, operating costs, potential losses, and necessary charges in order to make these commercial programs viable.[2]

Demand for such risk-management devices can develop anywhere that potential users prefer to offload risks, even exotic ones, in exchange for payment of a one-time or periodic fee. For example, sports teams sometimes insure the physical condition of their star players and famous musicians might insure their own fingers. More typically, individuals purchase common kinds of insurance including life insurance of various kinds, health insurance, homeowners' coverages, and vehicle accident and liability policies. They also commonly acquire other risk-management devices such as warranties and service contracts on vehicles, electronics, appliances, and household components and repairs.

In the past, the authors have written about two sorts of specialized risk-managing products purchased by some individuals entering into consumer or mortgage loans or financed vehicle purchases: debt protection

2 Professor Frank Knight (1885-1972) distinguished between calculable risk and essentially unknowable uncertainty. Risk stems from repeated events, which therefore allow probabilities to be calculated and factored into decisions. Uncertainty, however, stems from events that are unpredictable and as such cannot be prepared against. Pooling can often mitigate uncertainty associated with risky individual outcomes, but novel events are not always foreseen by protection providers and reflected by their calculations. See Frank H. Knight, *Risk, Uncertainty, and Profit* [first published 1921], Vernon Press Titles in Economics, Vernon Art and Science Inc, edition 1, number 14 (2013).

Unlike commercial ventures, governments are free of the profitability constraint and, for them, payments for unexpected adverse outcomes can exceed advance actuarial estimates and proposed budgets. Examples include additional payments over expected amounts by agencies as components of their ongoing responsibilities when necessary, enacted legislative subsidy programs, and use of the tax system to mitigate effects of natural disasters, or recently, a pandemic.

and GAP coverage.[3] Debt protection (credit insurance and related debt-cancellation and debt-suspension agreements) cover remaining loan amounts and/or periodic loan payments upon death or accident/disability of covered individuals. GAP protection of various sorts covers risks of a total loss of a vehicle due to accident or theft when the loan balance outstanding exceeds the book value of the vehicle covered by the casualty insurer. These previous research projects have shown that GAP coverage on vehicle financing is more common than debt protection on loans but that both sorts of purchases are well regarded by those who undertake them. The current project is to explore frequency of purchase of vehicle service contracts that are also sometimes associated with vehicle purchases, whether these risk-management efforts are also well regarded, and to identify underlying factors affecting product demand.

II. Vehicle Service Contracts

Personal automobiles and trucks are among the most expensive purchases that most households make. Repairs on them can be variable and expensive too, and this gives rise to demand for warranties to manage these risks. Like other risk-management methods, a manufacturer's warranty on a new-vehicle purchase protects against variable and potentially expensive adverse outcomes. In this case, within the manufacturing and sales process but behind the scenes, the cost of providing warranty coverage is built into the price of the new vehicle from the factory. In this way, the warranty becomes part of the product, and its cost is subsumed into the purchase.

But not all vehicle purchases have manufacturer's warranties. For instance, on purchases of used vehicles the manufacturer's warranty may have expired or it does not pass to the new owner. In some cases, "certified" or other specified used vehicles sold by dealers may also come with warranties, with warranty price also built into the vehicle sales price. Again, this does not include sales of all used vehicles, however. Situations arise where there is no warranty, or the warranty might expire during the time of possession of the vehicle, or the original warranty coverage is somewhat limited. These situations can become candidates for what consumers commonly know as "extended warranties," referred to in the industry as "service contracts."

It seems reasonable to expect, first, that demand for service contracts on purchased vehicles would be most frequent in situations where they would be most useful. These likely would include purchases of used vehicles, cases when the buyer intends to keep the car or truck for an extended period, or where mileage accumulation (physical depreciation) could be more rapid. In these situations, manufacturers' warranties might not apply or would become less useful sooner. It also seems they would be more frequent where the vehicle is especially important, for example, for transportation to employment.

Second, it also seems reasonable to expect that demand for service contracts would be greater among individuals who are especially vulnerable in serious ways to adverse events. Such situations could involve lower income and tighter budgets. Some individuals also are inherently more risk averse than others. They simply are more concerned about the possibility of facing unexpected large expenditures and are likely to take more protective measures to smooth the expected value of losses than others. Financial vulnerability

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[3] See Thomas A. Durkin and Gregory E. Elliehausen, *The 1977 Consumer Credit Survey* (Washington: Board of Governors of the Federal Reserve System, 1978); Thomas A. Durkin, "Consumers and Credit Disclosures: Credit Cards and Credit Insurance," *Federal Reserve Bulletin*, April, 2002; Thomas A. Durkin and Gregory Elliehausen, "Consumers and Debt Protection Products: Results of a New Consumer Survey," *Federal Reserve Bulletin*, December, 2012; Thomas A. Durkin and Gregory Elliehausen, "New Evidence on an Old Unanswered Question: The Decision to Purchase Credit Insurance and Other Debt Protection Products," *Journal of Insurance Regulation*, Vol. 37, No. 9, 2018. See also Thomas A. Durkin, Gregory Elliehausen, and Thomas M. Miller, Jr., "Consumers and Guaranteed Asset Protection ("GAP Protection") on Vehicle Loans and Sales-Financing Contracts: A First Look," Working Paper, 2022, available on Social Science Research Network (SSRN) and as Finance and Economics Discussion (FEDS) Discussion Series paper 2022-062, Washington: Board of Governors of the Federal Reserve System.

and degree of risk aversion among consumers can be measured by directly questioning them about these concerns, but also by exploring individual consumers' underlying financial situation, including income and liquidity.

Third, models of consumers' decision processes find that knowledge, purchase experience, and attitudes toward a product can influence product demand.[4] Such variables also are measurable, as marketers are well aware.

Taking these demand elements together produces a basic demand model for service contracts of the following form:

> $D_{SC} = f$ (Purchase situation (new/used vehicle, age of vehicle, expected period of ownership, etc.), vulnerability of purchaser to adverse events (including some demographics), risk aversion, and attitude (including previous purchase experience).

To develop an estimating model of the probability of service-contract purchase, many of the underlying elements of these calculations *are*, as mentioned, ascertainable through consumer surveys. For example, purchase or not of a service contract is measurable. Many potential explanatory factors are also ascertainable, for instance, new or used when purchased, age of vehicle, expectations for use period and mileage at time of purchase, etc. Liquidity of purchasers and risk aversion are also measurable in a survey.

Concerning the latter, risk aversion can be measured through direct questioning. But risk aversion also may be associated with demographics such as income and presence of family at home, and with liquidity constraints and credit scores, which influence individuals' ability to withstand adversity. Attitude toward the product and information about the sales experience can also be the subject of questions.

Expanding the basic model above to specify such elements provides an extended demand model of the following form:

> $D_{SC} = f$ [Vehicle purchase characteristics (new or used, vehicle price, expected period of use when purchased, yearly mileage, financed or not, length of financing);
>
> - Purchaser liquidity (income, ability to cover emergencies, job security, credit history);
> - Basic risk aversion;
> - Purchase situation (attitudes toward product, recommendations)].

To fill an information void in the area of vehicle service contracts, in early 2023 an industry coalition sponsored a nationally-representative survey of consumers (exclusive of Alaska and Hawaii).[5] The survey was undertaken by the well-known and highly respected Survey Research Center of the University of Michigan (SRC). SRC has been surveying consumers' financial attitudes and behavior, including vehicle

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4 See David Mothersbaugh, Susan Bardi Kleiser, and Delbert Hawkins, *Consumer Behavior: Building Marketing Strategy*, 14th ed., New York: McGraw Hill, 2020. See also Roger D. Blackwell, Paul W. Miniard, and James F. Engel's classic, *Consumer Behavior*, 10th ed., Stamford CT: Thompson South-Western, 2006.

5 The funding organizations were some subset of the Voluntary Protection Products Coalition. Other than that, the authors do not know who the sponsors were. See, generally, https://voluntaryproducts.org.

buying, since 1946. In early 2023, the coalition made the survey data available to the authors for academic analysis. The authors received the data directly from the SRC.[6]

SRC interviewed a total of 1200 individuals about vehicle service contracts in a nationally representative sample in January and March, 2023. The questions were add-ons to the monthly SRC survey that also produces the well-known University of Michigan Index of Consumer Sentiment that is widely cited by the financial press and has been an important monthly national economic indicator for decades.

The survey recorded that 57.7 percent of households interviewed (including single-person households) had purchased a car or truck in the prior four years. Table 1 provides some statistics on households who purchased (one or more) vehicles during this period. If a household had purchased more than one, the most recent purchase was chosen for further questioning.[7]

The first column of Table 1 shows some basic information on vehicle purchase transactions. Among all vehicle purchasers, 39.1 percent obtained a new vehicle (line 1), 39.7 percent paid cash for their purchase (line 2), and 60.2 percent intended the prime use of the vehicle as transportation to employment (line 3).

Concerning vehicle price, 47.8 of the transactions took place at price $25,000 or less, 36.0 percent in the $25,000–45,000 range, and the remaining 16.2 percent at price over $45,000 (line 4). A quarter of all purchasers also purchased a service contract (line 5 of Table 1). All of these proportions include sales by dealers but also directly between individuals.

Since some vehicle-purchase transactions take place directly between individuals and do not involve the sorts of sales experience of vehicle dealerships that might also offer service contracts, column 2 of Table 1 offers the same statistical information but only for transactions with a dealer and not an individual. This distinction was available only for the March portion of the survey. Results are similar between the entire population and the smaller dealer-sales only portion in March. Comparison of the columns shows that the differences that exist all appear to be in the direction predictable with individual transactions excluded from the second column.

Table 2 reports proportions within various characteristics of vehicle purchases that involve purchase of a service contracts. (Column 2 again offers comparison of all sales to dealer sales.) For instance, the top line again records the proportion of vehicle cash-purchase transactions that also involve a service contracts purchase (25 percent). The table then shows that service-contract purchases are less common on average for cash transactions (line numbered 1). Looking at the transactions features where purchase of service contracts is more or less common than the average suggests individual transaction features that may influence demand.

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6 The authors thank the coalition for making the survey data available directly from the SRC. The authors do not have any financial or other arrangements with any of these organizations or any financial or other arrangements with anyone for analysis of the survey. The views expressed are those of the authors alone and not those of any industry organizations, the SRC, or the Federal Reserve Board or staff. The authors also thank Dr. Tuba Suzer-Gurtekin of the SRC for excellent and efficient management of the interviewing, coding, and data-delivery process.

7 All survey statistics are subject to sampling error that exists because it is never possible to interview everyone. At a ninety-five percent confidence level, all of the statistics reported here are within a few, but varying, percentage points of the population value, depending on the individual measure in question.

Taking transaction features this way one at a time, none of the features of common vehicle-purchase transactions that appear associated with demand is especially surprising, or inconsistent with the basic demand model outlined above. For example, the low proportion of service-contract purchases on cash transactions noted above likely arises from the nature of the cash transactions. Many (but by no means all) cash transfers involve purchases from individuals including family members, acquaintances, responders to local ads, and other non-dealer and non-warranty situations where purchase would be "as is." In these cases, the seller typically would not be offering any version of a warranty or service contract and purchase rate would be lower (borne out by reference to column 2).

Reasonably, the purchase of service contracts would be more common in dealer situations. Line 2 of the table reflects this where both purchase and financing take place through a dealer and purchase of service contracts is more common. In this case, the proportion of sales also involving a service contract is more than twice as frequent as in the cash case. Transaction size involves a similar relationship: smaller transactions, many of which likely are between individuals, are less likely to include a service contract, and larger transactions more likely to do so (lines 3 and 4).

Personal situation of individuals also appears related to purchase of service contracts, again in ways that seem reasonable and consistent with the demand model above. For instance, purchase of a service contract is more common in higher-mileage situations (line 5 of the table).

Income level might be either positively or negatively related to purchasing a service contract. For instance, concerns over uncertain costs of future repairs and difficulty of fitting these costs into a tight future budget might make service contracts attractive to lower-income households. In contrast, lower-income individuals may be less likely to purchase service contracts due to concerns over budgets and affordability of the entire purchase that outweigh concerns over risks associated with limited income. Survey evidence suggests the latter: Lower-income households are less likely to purchase (lines 6 and 7). By itself, liquidity seems to be an issue. Purchase is more frequent among those who report they do not have much funding available to cover emergencies (line 8).

Looking further at personal situations, service-contract purchase also is lower among respondents who self-report that they are willing to take risks (line 9). This means, conversely, those who are less willing to take risks (they are "risk averse") are more prone to purchase a service contract.

The final lines of the table offer two more insights about purchasers of service contracts in ways that are consistent with expectations. Specifically, new-vehicle purchasers who expect to keep the vehicle for an extended period are more likely to purchase the service arrangement (line 10). Also, purchasers of used vehicles with high mileage are less likely to purchase a service contract (line 11). This probably comes about because such vehicle purchases could include many "as is" cash purchases between individuals and not through dealers offering warranties of any sort. Some also could involve very high mileage cases where the buyer is not expecting to undertake any potentially costly repairs under any circumstances but instead would merely "junk" the vehicle.

Table 3 outlines results from a series of questions asking about experience with the sales process and purchasers' views of the service contract product itself. The first group of measures concerns dealer recommendation and, not surprisingly, dealer recommendation is statistically related to service-contract purchase. In cases where the respondent perceived that the dealer recommended the product, 48 percent purchased it (Line 1 of Table 3). If the perception was that the dealer merely mentioned but did not especially recommend a service contract, sales still reached 30 percent (line 2). If the respondent did not recall any mention, purchase was infrequent at 6 percent (line 3). Concerning the latter, apparently some vehicle buyers ask about service contracts, even if the dealer does not specifically mention them, or the buyers may ask about them before the dealer brings them up.

To learn more about the purchase process and buyers' views, the survey asked purchasers of service contracts a short series of additional questions about experiences and attitudes. First, a large majority of both purchasers and non-purchasers indicated that the dealer explained the costs and features of the service contracts, with the proportion of purchasers reaching 94 percent on this measure (line 4). Non-purchasers answering affirmatively reached 89 percent (not in table). (It is possible in both cases that the small proportion of others could have indicated early in the discussion that they understood the product and were going to purchase it or not, making much further discussion of the point superfluous.)

The large majority of service-contract buyers (96 percent) indicated their understanding that purchase was voluntary (line 5). It is possible that those indicating otherwise may have felt some sort of undue pressure, but any contention that purchase was less than voluntary was uncommon and may have been due to some sort of misunderstanding about the mix of manufacturers' warranties and the service-contract product. Some also may have involved "certified" used vehicles.

Among purchasers of the service contracts, 28 percent indicated they had filed a claim of some kind at some time (line 6 of Table 3). When asked about ease or difficulty of filing claims, respondents who filed claims generally reported that the filing experience was easy (line 7). Most filers also indicated they received the expected result (line 8).

Concerning overall attitude toward service contracts, about three quarters of purchasers (76 percent, line 9 of Table 3) indicated they would purchase again, and about the same proportion (75 percent said they would recommend purchase to family and friends (line 10). Only 6 percent of purchasers indicated they were dissatisfied with the product (line 13).

Finally, all vehicle purchasers in the January survey (not just service-contract purchasers) were asked whether purchase of a service contracts was a good or bad idea.[8] Not surprisingly, responses differed sharply between service contract purchasers and non-purchasers. Three quarters of buyers said purchase was a good idea, certainly not surprising since they purchased (line 14). This compares to only 29 percent favorable among non-purchasers. While the proportion of non-purchasers contending purchase of a service contract is a good idea logically should be much lower than among purchasers, it is still more frequent than being a rare or uncommon contention. Possibly for some of the non-purchasers, the decision may have had more to do with price or other budgetary matters than with product features.

When asked why they answered the way they did to the good idea/bad idea question, purchasers and non-purchasers of service contracts offered a variety of responses concerning reasons for their views. Table 4 contains categories of responses offered. Only broad general categories are given in the table rather than frequencies because many respondents offered more than one (intertwined) answer, making simple

[8] This question and its follow-up question concerning reasons for response, along with a few other questions asked of all vehicle purchasers, were omitted in the second month of interviewing because the first month revealed the answers and the questions were time consuming in the interview and therefore expensive to repeat. Where reported in the tables, these questions are indicated.

classifications difficult. It is clear from verbatim answers that most respondents held well-developed views, and that many respondents were quite loquacious about them.[9]

In general, positive views coalesced around contentions that you never know what might happen in the future and that there could be budget implications associated with this unknown future. Many respondents suggested a service contract leads to a greater peace of mind. This is, of course, a simple statement of the basic reasoning behind any risk-management demand. And, as with any purchase, some individuals reported that the service-contract approach is worth the money while others do not. One classification of responses also notes the idea that service contracts permit continuing reliance without further budget implications upon better repair facilities (vehicle dealers) than possibly less-expensive, but potentially more-variable in quality, independent repair outlets.

Negative responses to the reasons question are somewhat more varied than positive responses but also well within reasonable expectations. The focus here typically was on such things as how other warranties were sufficient, expense was high and they might not be needed, the respondent felt his/her own maintenance efforts were sufficient, and concerns that warranties were just dealer profit. As with the positive responses, negative responders were willing to express their views, and few had no opinion.

In sum, findings from the survey on vehicle service contracts fit well into the framework suggested above: By no means do all vehicle buyers purchase service contracts, but those who do are more likely to follow an expected pattern. Survey findings reveal that purchasers of service contracts are more likely when the purchase involves dealer financing and is a high-price vehicle ($45,000 or more). Higher-income buyers are more likely to purchase a service contract, but also those with liquidity constraints and a greater measured degree of personal risk aversion. New vehicle purchasers who plan to keep the vehicle for a long time also are more likely to purchase a service contract.

Dealer sales effort also seems related to purchase, although here cause and effect may also operate in a reverse direction: Dealers may well be able to sense who is a good candidate to purchase a service contract and concentrate their sales effort on them, "preaching to the choir" in a sense. In any case, a large majority of both purchasers and non-purchasers reported that costs and terms were explained and almost all purchasers reported that the decision was voluntary. Only a small proportion of purchasers indicated dissatisfaction with the decision (6 percent). Three quarters of purchasers believed that purchasing a service contract is a "good idea," along with a considerable proportion of non-purchasers (29 percent). In both cases, survey respondents seemed like they had considered the issue, and they were willing to express their views.

III. Some Conclusions about Vehicle Service Contracts

Some conclusions about factors affecting demand for service contracts on purchased vehicles arise from initial analysis of a nationwide survey of vehicle purchasers.

First, evidence about purchasers of service contracts is consistent with a model of demand for the product suggesting importance of factors outlined in a demand model. As indicated, higher-income vehicle buyers

[9] Any actual verbatim responses are impermissible here as part of SRC's agreement with respondents and the University of Michigan that no individual responses to any question will ever be revealed publicly in any report, even if there is no accompanying indication of personal information about the provider.

and those buying high-price vehicles are more likely to purchase service contracts. Those expecting higher mileage or expecting to keep the vehicle for more time are also more likely to purchase. Likewise, those who identify themselves as risk averse are also more prone to purchase. In contrast, those with lower income and liquidity constraints are less likely to purchase. All of these findings about service-contract purchase seem eminently reasonable.

Second, vehicle dealers typically offer service contracts as part of the vehicle sales process, but the sales process itself does not appear to govern the outcome. Notably, as outlined above, expected demand factors are related to the purchase. Further, although many vehicle buyers are offered the product, only a minority of vehicle buyers actually purchase it, the rest presumably believing either they do not need it, or it is not cost-efficient for their needs. As indicated, a group of factors seems related to frequency of purchase, and almost all purchasers (96 percent) understood the voluntary nature of the purchase. (Some of the others may have included buyers of "certified" used vehicles where a service contract was part of the purchase arrangement.) A large majority (almost 90 percent) of purchasers reported that the seller explained the costs and terms, and looking back, only about 6 percent of buyers reported any dissatisfaction with their purchase. All of this suggests that predicable consumer demand factors underlie existing variations in purchase of vehicle service contracts.

Table 1
Selected Features of Vehicles Purchases
(Percents)

	Among All Vehicle Purchasers	Among Vehicle Purchasers at Dealers**
1. New or used vehicle:		
New Vehicle	39.1	41.9
Used	60.9	58.1
2. Payment method:		
Cash transaction	39.7	32.5
Financed	60.3	67.5
3. Vehicle use:		
Primarily for commuting	60.2	60.5
Other	39.8	39.5
4. Vehicle price:		
Price less than $25,000	47.8	36.3
$25,000–45,000	36.0	43.8
Greater than $45,000	16.2	19.9
5. Purchased Service contract	25.0	29.3

*** This question asked only in March*

Table 2

Frequencies of Service Contract Purchases by Selected Transaction and Purchaser Characteristics
(Percents)

	Among All Vehicle Purchasers	Among Vehicle Purchasers at Dealers**
TRANSACTION CHARACTERISTICS		
Vehicle buyers:	25.0	29.3
1. Paid cash	13.9	18.7
2. Purchaser financed through dealer	35.0	36.4
3. Vehicle cost $25,000 or less	15.6	16.5
4. Vehicle cost $45,000 or more	37.0	37.4
5. Yearly mileage greater than 20,000	29.5	28.8
6. Lowest income quartile	16.2	26.1
7. Other income quartiles	26.7	29.1
8. Largest amount of emergency easily coverable: $500*	38.9	NA
9. Purchaser willing to take risks*	12.2	NA
10. New vehicle purchasers expecting to keep for four years or less	14.2	14.2
11. New vehicle purchasers expecting to keep for ten years or more	34.1	34.1
12. Used vehicle purchases with more than 95,000 miles	6.8	25.2

** This question asked only in January*

*** This question asked only in March*

NA: Not ascertainable because these situation questions and the dealer question were not asked in same month.

Table 3

Experience with Service-Contract Purchases and Attitudes Toward Product Among Vehicle Purchasers
(Percents)

Among Vehicle Purchasers
(Percents)

	Purchased Service Contract	Did not Purchase Service Contract
EXPERIENCE/ATTITUDE		
1. Seller recommended product	48	52
2. Seller merely offered product	30	70
3. Seller never mentioned	6	94

Among Service-Contract Purchasers
(Percents)

4. Costs and terms explained	94	
5. Purchase designated voluntary	96	
6. Reported claim	28	
7. Claim experience easy	80	
8. Received expected result	84	
9. Would purchase again	76	
10. Would recommend	75	
11. Satisfied	82	
12. Pro/con (neither particularly satisfied nor unsatisfied)	12	
13. Dissatisfied	6	
14. Good Idea or Not*		
Good idea	75	29
Pro/con	2	4
Bad idea	23	67
Total	**100**	**100**

** This question asked only in January*

Table 4

Reasons Expressed Why Purchasing a Service Contract
Is a Good Idea or Bad Idea*

Reasons why a good idea:

A. You never know about future repair needs/future finances
B. Repairs can be costly
C. Peace of mind/no budget surprises
D. Good experience with service contracts in past
E. Many people cannot fix their own car/truck
F. Enables affording better repair outlets (dealer shops instead of smaller local shops)
G. Convenience/saves time

Reasons why a bad idea:

A. Vehicles and repairs:
   - Vehicles are built well today/further warranty not needed
   - Manufacturer's warranty is sufficient
   - Locks you into single source for repairs
   - There are limitations in the coverage
   - Can do most repairs myself

B. Costs and budgeting:
   - Extra cost/expensive/not worth cost
   - Skepticism whether there is any real financial advantage/benefit is to dealer profit
   - Easier just to fix as needed/prefer to self-insure
   - Better to save the money for repairs when needed

C. Experience:
   - Bad past experience with service contracts (not necessarily vehicle contracts)

D. Problems of "other people":
   - Some people should be more careful choosing the vehicles they buy
   - Some people do not know how to negotiate costs/prices

** This question asked only in January*