

Umbrella Insurance

Happy Spring!

In this month's newsletter, the topic of umbrella insurance is highlighted. This type of coverage is also often referred to as excess liability insurance as it offers additional liability protection if the insured is sued and it comes into effect once the coverage amounts provided by homeowners and automobile policies are exhausted. In today's litigious world, individuals want additional protection to ensure that their assets and future earnings are protected.

Basics

An umbrella policy is pure liability coverage over and above the coverage afforded by a regular homeowners or automobile policy and most insurance carriers will not issue this unless those other coverage amounts meet required minimum liability limits. In some cases, these companies will also require the homeowners and auto policies to be underwritten by them. To determine how much personal umbrella liability insurance coverage is needed, individuals should add up the value of their assets and compare that dollar amount to the coverage amounts offered under their home and auto insurance policies. If the value of the assets is more than the policy limits, then obtaining a personal umbrella liability insurance policy should be considered.

How It Works

If the insured gets sued and the claim falls under a homeowners or auto policy, that policy will pay first, and then the umbrella insurance coverage will cover the difference up to its liability limits. For example, let's assume an individual is sued for \$1 million by the victim for injuries they caused during an automobile accident. In the event the complainant prevails, the insurance company will

pay up to the policy limit (let's assume \$300,000), and the individual would be liable for the remaining amount. Such a large liability can deplete an individual's entire assets.

There are several factors which increase one's risks of such a lawsuit and should be taken into account when deciding the amount of coverage to purchase:

- Overall net worth – The higher the amount, the more likelihood coverage is needed.
- Operating a business in your home as you may have employees and clients there on a regular basis (for example, a day care).
- Owning rental property – potential for tenants or their guests to be injured while at the property.
- Young drivers in the household – Teenagers are more accident-prone, increasing the likelihood of an accident related lawsuit.
- Children – They are more likely to get hurt at homes with pools, trampolines, play structures, etc.

How Much Coverage

It is important to determine personal risks to evaluate the amount of additional liability coverage that would be prudent to have. Most people need at least \$1 million umbrella insurance as in the event one is sued, they could be forced to pay the judgment from current assets and future earnings. This coverage can also pay for legal fees, which can quickly add up even if the person who sues is unsuccessful.

Premium

Obtaining umbrella insurance coverage is relatively inexpensive as the premium for a \$1 million policy typically costs between \$150 and \$300 a year depending on various factors include credit rating and driving history. Many insurers offer multi-policy discounts, lowering premiums and also making the coordination of claims more streamlined.

Summary

In looking at the various insurance coverage that individuals typically carry – health, life, disability, homeowner's, and automobile, it is important to protect one's assets and future potential earnings in the event they are found legally responsible for an accident in which injuries or damages were sustained. By only having the basic homeowner's and automobile insurance policies, there is a risk that the coverage amounts will not be sufficient to cover any awarded judgments. Umbrella insurance is a cost effective way to protect one's financial assets from potentially devastating lawsuits.