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The Importance of Personal Umbrella Policies

What would happen if you or your child caused a car accident that resulted in serious injuries or the deaths of others?

How would you pay for the treatment and damages of someone who was hurt in your home and claimed negligence? What happens when they claim to have suffered greatly because of the injury?

What if your dog was attacked by a stranger on your property and bit the person in self-defense—but you were still sued?

These are questions that anyone could face. However, one component of a wealth protection plan that is often overlooked or underused—even by the affluent—is the umbrella policy.

Here's why an umbrella policy can make sense if you have significant assets.

The benefits of umbrellas

You have insurance policies on your house and vehicles. You might also insure other types of property you own (boats, airplanes, etc.). But do you have enough coverage, considering your personal wealth?

If you're financially successful, the answer may be a resounding *no*.

The reason is that most insurance policies top out at around \$500,000 of liability coverage. That may not be enough if you find yourself involved in a serious accident. For example, people who get hurt on your property may seek much more than \$500,000 in damages.

That's where an umbrella policy (also called an excess liability policy) can make a big difference. An umbrella policy kicks in when your other liability policies (such as your car insurance) hit their limit. For instance, let's say you are involved in an accident and are being sued for \$1 million, but your car insurance covers only \$300,000. In that case, your umbrella policy could cover the difference so you don't have to use personal assets.

Clearly, then, an umbrella policy can be useful in helping to protect your assets from larger claims and lawsuits.

To have an umbrella policy, you need to have the other insurance policies, such as car or homeowner's insurance, already in place.

Make sure there isn't a gap between your other policies and your umbrella policy. Where your car insurance ends, for example, the umbrella should take over—otherwise, you're on the hook for that gap. And if the underlying car insurance policy is not addressing certain risks, then the umbrella policy can also miss covering these risks.

A BIG ENOUGH UMBRELLA?

We find that most wealthy individuals and families don't have large enough umbrella policies to adequately protect their assets. If a legal judgment is greater than your liability coverage, you are going to have to come up with the difference—which may mean selling assets, possibly at fire-sale prices because of the bind you're in.

A general rule of thumb is that if your net worth is \$20 million or less, make sure your umbrella policy covers what you're worth. If you are worth more than \$20 million, it becomes a question of how much risk you're comfortable taking on.

Many ultra-wealthy individuals, for instance, will get as large and comprehensive an umbrella policy as possible. While the odds of having to use it are in their favor and it's even more unlikely that they will reach the limits of the policy, the possible financial downside from a serious accident and substantial lawsuit is something they prefer not to even consider. As one person with a \$10 million umbrella policy told us, "It costs less than putting an attorney on retainer to defend you in the event of a suit."

That said, it can be challenging to insure up to the amount you wish. That's because some insurance companies cap the size of the policies they offer, usually at \$5 million. If you require more than \$5 million in coverage, you may need to enlist a specialty insurance company, which might be able to offer policies of up to \$100 million.

The cost of coverage

How much will a hefty umbrella policy set you back? A number of factors determine the cost of coverage, including:

- Number of homes and where they are located
- Number of cars and the number of people being covered (including their driving histories)
- Number of boats and planes
- Amount of existing liability coverage you have before adding the umbrella policy

The good news is that umbrella policies tend to be relatively inexpensive, because the severe occurrences that trigger them are uncommon.

The upshot? If you don't have an umbrella policy, run—don't walk—and get one. If you do have an umbrella policy, make sure you're sufficiently covered—and boost that coverage amount if you're not.

Coverage above and beyond

An umbrella policy usually covers bodily and psychological injuries, and can even include slander, libel and defamation. It can also cover damage caused by someone else for whom you're responsible, such as a child.