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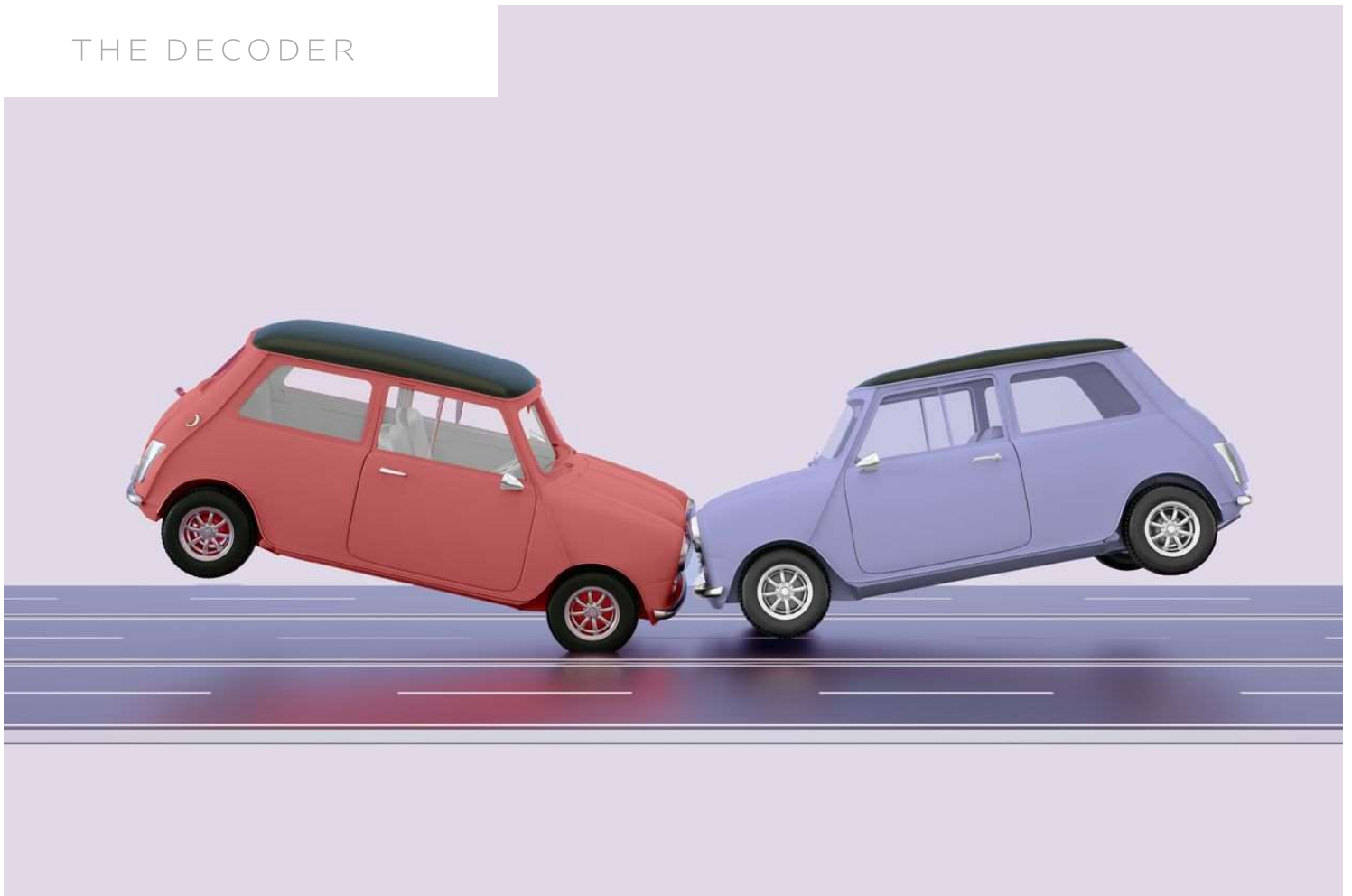
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What Does Liability Insurance Cover?

Here's how to make sure you're covered if you are deemed responsible for harming someone else or their property

THE DECODER



Liability insurance is included in your home and auto policies. iStockphoto/Buy Side from WSJ Photo Illustration

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By *Tanza Loudenback*

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No one expects to be responsible for a catastrophic event that injures someone else or their property, but it happens. And it can be expensive.

That's where liability insurance comes in. Instead of dipping into your own savings or paychecks to cover someone's medical expenses or repairs, your insurance company takes care of it.

"It's really about taking a small amount out of your pocket to shift the risk to somebody with a much bigger pocket, an insurance company," says **Damon Winter**, a Lake Oswego, Ore.-based financial advisor. Liability coverage is baked into homeowners and car insurance policies, but there are other areas you may need coverage in too.

Here's what you should know about the different types of liability insurance, what each covers and how much it costs to be fully protected.

Types of liability insurance

Liability insurance can be split into three categories: personal, professional and business.

1. Personal liability insurance

If you own a home or drive a car, you already have some liability insurance. A standard part of homeowners and auto policies, liability coverage saves you from paying for someone else's injuries or property damage when there's an accident. Sometimes the insurance company will even pay when it's not your fault.

Take homeowners insurance, for example. If a visitor gets hurt on your property, whether it's in the pool, during a party or because your dog bit them, you could be responsible for their medical bills. But since you pay for insurance, the insurer covers it.

Liability coverage within a homeowners policy is broad. It also typically pays for legal defense costs if you're sued by the injured person, as well as their wages if they're unable to work, court-awarded damages for pain and suffering or funeral costs if the injury led to death. It can also cover legal costs if you're sued for defaming someone's character, whether or not it happens at your house.

With car insurance liability coverage, your insurer pays for the victim's medical expenses, lost wages, court-award settlements or property damage when an accident is your fault. But depending on the type of car and severity of the injuries, that can add up fast. You're responsible for paying any expenses beyond your coverage limit.

2. Professional liability insurance

Professional liability insurance covers small businesses or individuals who offer advice or services, such as accountants, financial advisors, doctors and lawyers. Otherwise known as errors and omissions insurance,

it covers legal defense fees when a professional is sued by a client or patient, and settlement costs if they're found liable.

"Basically, it protects you from unsatisfied clients," says Mark Friedlander, a spokesman for the Insurance Information Institute.

3. Business liability insurance

There are several forms of business liability insurance. It generally protects the financial interests of a business and its owner from claims of physical injury and property damage from employees, contractors or patrons. Manufacturers often have product liability insurance, for example, which pays legal defense costs and any court-awarded settlements if a product has a defect that causes bodily harm or property damage.

How much coverage do I need?

Personal insurance policies come with a minimum level of liability coverage, but you can—and often should—buy more, Winter says. Increasing your limits will usually lead to a higher monthly payment, but one bad liability claim could "crush you" financially, he says, so the protection is worth the added cost.

Car liability insurance

States set minimum car insurance liability requirements for drivers, which are divided into three parts:

- **Bodily injury limit, per person:** How much the insurer will pay for a single person's medical bills when they're injured in an accident caused by the policyholder. Also includes legal fees if the policyholder is sued by the victim. According to **data** from insurance-comparison site The Zebra, state minimums range from \$15,000 to \$50,000.
- **Bodily injury limit, per accident:** The combined amount the insurer will pay for medical bills for multiple injured people in an at-fault accident. State minimums range from \$30,000 to \$100,000.
- **Property damage limit:** How much the insurer will pay for replacements or repairs for other cars or physical property (a light pole or fence, for example) that are damaged in an at-fault accident. **State minimums** range from \$5,000 to \$25,000.

Friedlander says most insurance professionals recommend drivers have annual auto liability coverages of 100/300/100, meaning \$100,000 in bodily injury coverage per victim, \$300,000 in bodily injury coverage per accident and \$100,000 in property damage coverage.

It's possible to get liability-only car insurance, but that means you don't have coverage for damage to your own car in an accident. A **liability-only policy** with coverages of 100/300/100 can cost anywhere from \$42 to \$84 a month for a single, 30-year old male driving a Honda Accord, according to estimates from The Zebra.

Keep in mind that those prices are samples; your individual driving record and location, among other things, determine how much you pay. Plus, adding comprehensive and collision coverage—the portion of

your policy that pays for damage to your own car—will increase your monthly payment.



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Homeowners liability insurance

A standard homeowners or renters policy provides at least \$100,000 worth of liability insurance. That covers medical bills for visitors if an accident occurs on the property, plus legal fees and settlement costs if the visitor sues you.

It also covers actions by the homeowner, family members who live with them or pets—anywhere in the world. If you wreak havoc on a hotel room, for example, causing thousands of dollars in damages, your insurer will step in and cover the bill up to your policy limit. (That doesn't mean you have free rein—insurers can increase your monthly payment if there's a claim like that). Most home insurers' liability coverage maxes out at \$500,000.

Figuring out how much coverage you need, Winter says, comes down to one question: “What do you have to lose? That's really a big factor.” Even if you don't think the odds of something bad happening are high, he says, you have to consider what the financial impact would be if something did. For many people, the potential loss is great.

According to ValuePenguin, an insurance comparison marketplace, a typical homeowner can **increase their liability coverage** without much of an impact on their monthly payment. For instance, upping coverage from \$300,000 to \$500,000 costs only \$10 more per month, based on a sample homeowner profile. In general, prices will vary based on your home's location and other factors.



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Personal liability umbrella insurance

A stand-alone policy called personal liability umbrella insurance offers a cost-effective way to get additional coverage, Friedlander says.

If you have at least \$250,000 in per accident liability coverage on your auto policy and \$300,000 in liability coverage on your homeowners policy, you could qualify for a so-called umbrella policy that steps

in when you hit those underlying limits. “It gives you a much greater blanket of financial protection,” Friedlander says.

For example, say you get into a car accident, severely injuring another driver and totaling their luxury car. They file a claim with your insurance company for medical expenses totaling \$150,000 and property damages of \$200,000. But you only have \$100,000 in bodily injury coverage and \$150,000 in property damage coverage. That leaves you responsible for the remaining \$100,000. An umbrella policy would cover that.

Umbrella policies start at \$1 million in coverage and cost between \$150 and \$300 a year, according to the Insurance Information Institute. “It’s not a ton of expense, but it’s peace of mind,” Winter says.

Business and professional liability insurance

Coverage needs for business or professional liability insurance vary based on the size, location and structure of your company, among other things. It’s best to consult a licensed insurance agent or financial advisor to figure out the right amount.

Special considerations

Unlike most other insurance, liability coverage isn’t subject to a deductible. That means you don’t have to pay anything out of pocket before the insurance company will step in. But once you hit the annual limit for your liability coverage, it’s up to you to pay the difference (unless you have an umbrella policy too).

Liability insurance doesn’t offer protection for criminal conduct or intentional actions—only accidents. Homeowners should also note that their liability coverage doesn’t extend to small businesses they operate from home. Separate business or professional liability insurance is recommended in those cases, says Friedlander.

How to get coverage

Since liability insurance coverage is a standard feature of homeowners, auto and renters policies, you don’t need to shop for those separately. Instead, pay attention to coverage amounts when you’re looking for a new policy or updating your current one.

“Don’t just pick minimum coverages or even low coverages,” Winter says, “get substantial enough coverage to protect your risk.” When getting quotes from insurers, you’ll be able to see the monthly cost of various coverage amounts. The best move is to choose the highest level of coverage that you can comfortably afford.

If you’re seeking backup coverage through an umbrella policy, start by checking out what your current insurance provider offers before shopping around. Having all your policies in one place during a crisis can save time and headaches.



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