

Do You Need a Personal Umbrella Policy?

One night, your son borrows your car to go out with friends. While speeding down a road, he loses control—killing one passenger and seriously injuring two others. What would happen to your finances if you're sued by the families of the victims?

Or what if your dog is provoked by a stranger on your property and bites the person in self-defense—but the person still sues you?

These and similar scenarios are both horrific and all too possible. The good news is that, generally, we see many affluent individuals and families facing these types of questions and risks head-on by taking steps to help ensure their wealth is protected from lawsuits resulting from scenarios like these.

Unfortunately, there's one aspect of a strong wealth protection plan that people too often underuse or even overlook entirely: an umbrella policy.

If you have significant assets, an umbrella policy may make good sense. Here's a look at why that is.

Above and beyond

You have insurance policies on your house and vehicles, of course. You might also insure other types of property you own, such as art. But do you have enough coverage, considering your personal wealth?

If you're financially successful, the answer could very well be an emphatic no.

That's because insurance policies tend to offer maximum liability coverage of \$500,000. That's good—but likely not nearly enough if you find yourself involved in a serious accident. For example, people who get hurt on your property may seek a whole lot more than \$500,000 in damages. And, of course, your wealth can paint a target on your back. If they find out you're worth a substantial amount, they may well pursue an even larger payment—even if it's unwarranted.

Consider just some of the reasons or situations you could find yourself in that may potentially boost your probability of being sued for significant sums:

- You have a swimming pool, pond or trampoline.
- You have horses.
- You host large parties in your home.
- You employ household staff.
- You serve on a charitable board.

That's where an umbrella policy can make a big difference. Also called an excess liability policy, an umbrella policy kicks in when your other liability policies (such as your car insurance) hit their limit.

Example: You are involved in an accident and are 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.

Size and Cost

Clearly, then, an umbrella policy is useful to help protect your assets from larger claims and lawsuits that could potentially cause great financial hardship—or even financial ruin. An umbrella policy usually covers bodily and psychological injuries, and can even include coverage for slander, libel and defamation. It can also cover damage caused by someone else for whom you're responsible, such as a child.

The caveat: To have an umbrella policy, you need to have the other insurance policies (car, homeowners, etc.) already in place.

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

How big is big enough?

While some affluent individuals and families don't have any umbrella coverage, more commonly we see situations where wealthy individuals and families have umbrella policies that are not large enough 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 depressed prices because of the bind you're in.

Pro tip: 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.

Take extremely wealthy entrepreneurs, for instance. Often, they'll get as large and comprehensive an umbrella policy as possible. While the odds of never 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.

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

A number of factors determine the cost of coverage, including:

- The number of homes you own, and where they're located
- The number of cars you own and the number of people being covered (including their driving histories)
- The number of boats and/or planes (or other types of vehicles) you own
- The amount of existing liability coverage you have before adding the umbrella policy

One piece of good news: 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.

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