

## **Umbrella policies plug holes in your coverage**



Let's start by dispensing with many of the myths surrounding umbrella liability coverage.

- It's just for the rich.
- It's too complicated to coordinate it with your existing insurance like your homeowner's policy.
- The premiums are too expensive.

All of these myths are incorrect. Umbrella liability is relatively affordable, can be easily coordinated with your existing insurance policies and by no means is it just for the well-to-do.

Umbrella liability insurance is so named because it acts like an umbrella, sitting on top of your auto and homeowner's liability policies to provide extra protection. (Even if you don't own a home, remember that you still need renter's insurance to cover both your liability and your personal property). Some examples of where umbrella coverage often comes into play:

- An auto accident in which you're sued under your auto insurance policy.
- Your neighbor slips and falls on your property, and you're sued under your homeowner's insurance.

Your auto and homeowner's policies have at least some liability insurance that would be used to settle legal claims. But what if a settlement (or judgment, if it goes to court) is \$800,000 and you only have \$300,000 of liability insurance? The insurer would pay its \$300,000, but where are you going to get the other \$500,000? Virtually everything you own would be fair game to pay off the debt. The only good news is that some states protect certain assets (like your home) from seizure.

Worried? You should be. With America's love affair with lawsuits, you can't afford to not have umbrella liability insurance.

Umbrella liability insurance pays \$1 million, \$2 million and sometimes even \$5 million or more of a claim, on top of what your basic policies will pay. You're usually able to set the amount. For the protection you get, umbrella liability coverage is not very expensive. Premiums are usually \$200 to \$300 a year for \$1 million worth of coverage. The cost depends on such criteria as the amount of coverage, the insurance company issuing the policy and your own "personal risk factors" (such as the number of traffic tickets you've gotten in the past few years, and possibly your credit report).

When people do buy, they often don't buy enough. For example, you may have assets worth \$1 million, figure that you need enough coverage to protect your assets, and therefore buy a \$1 million policy. But what if a judgment of \$2 million is handed down? We often hear of juries awarding \$20 million; it should be obvious that the amount of someone's assets isn't taken into consideration. In either of these cases, you would lose all of your assets and still owe money. Your future income, if you have to make settlement payments over time, could easily

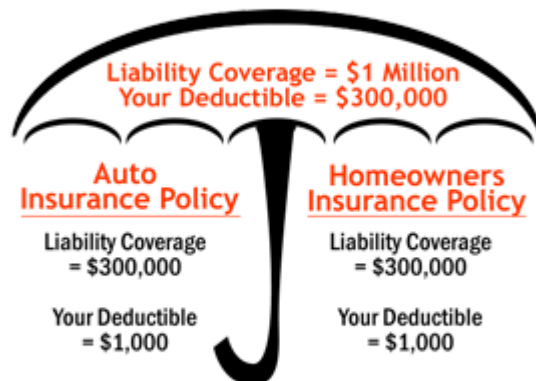
be jeopardized. The same goes for any inheritance you may receive (it could easily be seized for payment), not to mention any inheritance you may want to leave your children.

How much you own is irrelevant when deciding how much to purchase. Do you live in a wealthy town, where you could be an easy target for a big settlement? Do you travel a lot? Do you entertain a lot? Do you operate a home-based business and have employees or clients coming to your home on a regular basis? (Many self-employed people wrongly assume that this is covered in their homeowner's policy.) If you answered yes to any of these questions, it is particularly important for you to have umbrella liability insurance.

Umbrella liability insurance usually carries a high deductible of \$300,000 or more. It's designed not to kick in until your other policies are tapped out. The illustration below shows how umbrella insurance is coordinated with your auto and homeowner's policies. Typical umbrella policies require you to have homeowner's and auto liability insurance equal to the amount of your deductible. It's a good idea to try and get your umbrella liability, homeowners, and automobile policies from the same company; there's usually a substantial premium discount. Additionally, you eliminate the potential nightmare of dealing with different insurance companies if something should happen, where each would likely try to shift payment responsibility to the others, leaving you caught in the middle.

## HOW AN UMBRELLA LIABILITY POLICY WORKS

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You get sued. You settle with the claimant for \$1 million. You pay a \$1,000 deductible for the basic policy involved (auto or homeowner's). That policy pays \$299,000. Your umbrella policy kicks in because the \$300,000 deductible has been met. It pays \$700,000. You pay nothing.

It's depressing to think of all the liability risks you take, any of which can instantly decimate even the best financial planning strategy. Keep in mind that it's fine to take calculated risks — for example, if you don't drive your car every day and you infrequently have people on your property, you may decide that instead of spending money on umbrella premiums you'd rather take the risk that you will never be hit with a liability lawsuit. This strategy is called "self insurance." (In fact, you're automatically self-insured if you don't have any insurance coverage.)

Umbrella coverage, if nothing else, offers psychological comfort. You'll know that if your neighbor falls on your front steps or you rear-end the car in front of you that you're protected.