SPOTLIGHT

A WEALTH MANAGEMENT PUBLICATION OF FERGUSON WELLMAN, OCTAVIA GROUP AND WEST BEARING

UMBRELLA INSURANCE

What is umbrella insurance?

Umbrella insurance shields you from financial losses, just like an umbrella shields you from the rain. Also known as excess liability or personal liability insurance, umbrella policies extend the coverage provided by your homeowners and auto insurance. They are designed to take over where these policies fall short, offering both higher limits and broader protection.

Umbrella policies typically cover claims involving injury to others, property damage, and personal liabilities like slander and defamation. These policies not only cover the homeowner but may also extend to members of the family.

How does umbrella insurance work?

Let's consider this example. Imagine you have $500,000 in liability coverage on your auto insurance policy. You are in an automobile accident, and a lawsuit holds you responsible for $1 million in damages. Once your auto policy has been exhausted, your umbrella policy would be relied upon to cover the remaining $500,000. This protects the other assets that might otherwise be required to settle the lawsuit against you.

How much coverage do you need?

To determine whether a personal umbrella policy is necessary for you, consider the following factors:

Total Assets: Start by assessing your current assets, including your home, savings, investments, and valuable possessions. As a general rule of thumb, the limit on your umbrella policy should cover your net worth, up to $10 million. Keep in mind that some assets, like employer-sponsored retirement plans, are fully shielded from liability claims. Additionally, the protection of IRAs and Roth IRAs may vary depending on your state of residence.

Future Earnings: You should also take into consideration your potential future income. In the event of a lawsuit, the plaintiff may seek to recover damages not only from your existing assets but also by garnishing a portion of your anticipated future employment income.

Liability Exposures: Evaluate your liability risks stemming from accidents, property ownership, or personal activities. Common risk factors include owning a swimming pool, trampoline, specific dog breeds, or having a teenage driver. If you're a landlord or a public figure, your risk is also elevated.

How much does umbrella insurance cost?

Umbrella insurance is relatively affordable. Coverage of $1 million typically amounts to just a few hundred dollars per year. Most insurers offer umbrella insurance, and they often provide discounts for bundling the policy with your underlying home and auto insurance. For this reason, reaching out to your homeowner's insurance agent is a good place to start when exploring your options.

What does umbrella insurance not cover?

Umbrella insurance has certain limitations that policyholders should be aware of:

Personal Property Damage: Umbrella insurance does not extend coverage to repair your personal property, such as personal belongings or your home. Instead, it is designed to cover the costs of repairing property belonging to others that you may have damaged.

Personal Injuries: Similar to personal property damage coverage provisions, umbrella insurance does not provide coverage for your own medical expenses. However, it can step in to cover medical expenses for someone else if you are held responsible for their injuries.

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Business Liability: It's important to note that a personal umbrella policy does not extend coverage to business-related liabilities. If you require coverage for business-related risks, you should consider obtaining a commercial umbrella policy.

Contract Obligations: If the other party in a contract sues you for not honoring oral or written contract terms, your umbrella policy is unlikely to cover your legal expenses.

Criminal or Intentional Actions: Keep in mind that a personal umbrella policy will not protect you from the consequences of your own intentionally harmful or illegal behaviors.

Umbrella insurance plays a key role in protecting your assets, and the affordable coverage is generally well worth the cost. Working with your portfolio manager, in collaboration with an insurance professional, can help you determine the coverage most appropriate for your circumstances.

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