

What Everyone Should Know About Umbrella Insurance

Umbrella policies provide extra protection beyond standard coverage, and they are available in increments of a million dollars.

Sometimes known as excess liability or personal liability insurance, umbrella insurance doesn't stand alone. Instead, it adds another layer of liability protection on top of the liability built into other policies you have, including auto, homeowner's or renter's insurance. It's designed to kick in when the liability coverage limits on those policies have been exhausted.

For example, if your teenage daughter causes an accident while driving one weekend evening and the driver of the other car suffers life-threatening injuries, the costs of their medical care can quickly surpass the liability limits on the auto insurance policy.

Also, with the cost of vehicles and repairing them quickly increasing, liability limits may not cover the cost of repairs to a third party's vehicle if they are driving a high-end car.

Without umbrella coverage, all of those excess costs above the limit would have to be paid by you out of pocket. If that injured driver requires lifelong care, you could be staring at millions of dollars in liability.

You'd likely have to sell assets, drain your investment and bank accounts and maybe even lose your home to pay.

Umbrella insurance, in other words, protects your assets and future income from the effects of one catastrophic claim.

What it covers

1. Bodily injury liability – Umbrella insurance covers the cost of injuries to another person, and may include the cost of medical bills and liability claims that are the result of injuries to:

- Other people, due to a car accident where the policyholder is at fault.
- Other people, caused by a pet owned by the policyholder.
- Guests in the policyholder's home, due to a fall or some other accident.

2. Property damage liability – This covers the cost of damage or loss to another person's tangible property, and may include the costs associated with:

- Damage to vehicles and other property, resulting from a car accident for which the policyholder is found at fault.
- Claims incurred in connection with damage caused to the property of others.

- Accidental damage caused to school property by a child.

3. Other personal liability This portion covers other actions a policyholder could be sued for, such as:

- Slander (an injurious spoken statement)
- Libel (an injurious written statement)
- False arrest, detention, or imprisonment
- Malicious prosecution
- Mental anguish or shock.

4. Legal costs The insurance will pay for the cost of legal fees, court costs as well as the cost of settlements and judgments in relation to the above three items.

What it costs

Most insurance companies offer these policies starting at \$1 million, and going up as high as \$10 million in some cases. There are a few companies targeting people with higher net worth ratings, and they offer policies as high as \$50 million, and sometimes more.

The majority of people who buy umbrella policies pick a standard \$1 million policy, but there are quite a few who choose policies totaling \$2 million for added protection.

The best part about umbrella insurance is how affordable it is. For the first \$1 million, the premium can be as low as \$250 per year.

However, it may be higher if a person has more than two cars, has points on his or her record or has young drivers in the home. The premium falls slightly for each additional million in coverage added.

Often, insurers will only sell you an umbrella policy if you also insure your home and auto with them.

The takeaway

If you own a home and cars, you should seriously consider an umbrella policy to protect your assets in case of a serious event.

This is especially true for anyone who has sizable earnings, as they can count on being a target of the top liability attorneys if they are found at fault in an accident that injures a third party.

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