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Umbrella Insurance



You buy a variety of insurance products to protect your assets and your loved ones. You are familiar with the basics: auto insurance, homeowners insurance, and life insurance. These policies help protect you from financial ruin should you or someone in your family accidentally cause major injuries or property damage to others. However, you may have overlooked an important and oftentimes extremely affordable type of insurance called umbrella insurance or personal liability insurance.

Umbrella insurance operates as a fail-safe. It is not a stand-alone product; rather it supplements other liability policies you already have in place, such as auto insurance or homeowners insurance. When you have exhausted your liability coverage under those policies, your umbrella policy will kick in. This policy is designed to protect you and your assets from significant financial hardship for certain unforeseen circumstances. These policies can also be written to provide a broader range of coverage, including covering certain types of damages that are not covered by your underlying policies.

The coverage that an umbrella policy provides can be summed up by the following categories:

1.
**Bodily
Injury
Liability**

- Covers the cost of injuries to another person
- May also include medical bills and liability claims that are the result of injuries

- Covers the cost of damage or loss to another person's tangible property

2.
**Property
Damage
Liability**

3.
**Other
Personal
Liability**

- Covers other actions a policyholder may be sued for (e.g., slander or libel)

Umbrella insurance is relatively cheap because no payments are made until the coverage limits from all other applicable policies have been reached. Most insurance providers will require a minimum of \$250,000 of liability coverage on an existing auto insurance policy and \$300,000 of liability coverage on an existing homeowners insurance policy. Umbrella insurance normally starts at \$1 million in coverage, with costs ranging from \$150 to \$300 per year according to the Insurance Information Institute. With each additional million dollars in coverage, the incremental premium costs continue to decrease.

The amount of umbrella insurance you need is dependent on three factors, the first factor being the total value of all of your assets. All else being equal, the higher the value of your assets, the more coverage you may need. The second factor is the scope of the risks you and your family may face. Examples include the amount of time spent on the road driving to and from work and also the nature of your job. The final factor is the potential loss of future income. Your earnings potential may be your biggest asset, and liability lawsuits can stake a claim on your future potential income. A general rule of thumb is to have an umbrella policy with coverage equal to the value of all the taxable assets you own, plus any real estate beyond your primary residence.

With \$1 million dollars of coverage starting at as little as \$150 per year, these policies are a no-brainer. They are very affordable and can offer great peace of mind for you and your family.

If you have questions about your specific situation, please do not hesitate to contact your advisor.

Sources: Fidelity, NerdWallet, Insurance Information Institute

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