

PRIVATE CLIENT Understanding Personal Umbrella Insurance and Determining Adequate Limits



Understanding Personal Umbrella Insurance Coverage

An umbrella policy, like excess liability protection, is an additional layer of coverage that provides protection beyond the liability insurance that already exists within primary insurance policies (such as homeowners' insurance, auto insurance, yacht insurance, etc.). It acts as a financial safety net, serves as valuable asset protection if someone brings a lawsuit against you, and it can help to cover expensive medical bills or repairs that exceed the limits of your primary, or "base," insurance policies.

Generally, you'll need to have a minimum level of home and auto liability insurance in place to purchase an umbrella policy. This is your base. Umbrella insurance kicks in after you have reached the liability limits on your "base" policies.

A personal umbrella policy provides an added layer of crucial protection for a range of more significant and unexpected liabilities. Members of your household (spouse and children) are generally also covered by your umbrella insurance policy.

Typically Covered by a Personal Umbrella Policy

- **Extra liability:**

Umbrella insurance can pay for injuries or property damage you cause that exceed the limits of your homeowners, auto, boat, and other insurance policies.

- **Other coverages:**

In addition to legal defense costs required to defend you in lawsuits related to property damage or bodily injury, umbrella policies can also cover claims like libel, slander, invasion of privacy, and false imprisonment.

Typically Not Covered by a Personal Umbrella Policy

- **Intentional acts:**

Umbrella insurance doesn't cover damage or injury you cause intentionally.

- **Business pursuits:**

Umbrella policies won't provide liability coverage for your business activities.

- **Specific causes:**

Typically won't cover damage due to nuclear radiation, war or terrorism, or harm caused by communicable disease.

High-net-worth (HNW) individuals work hard to build their wealth. But a lawsuit, even a seemingly unfounded one, could threaten a HNW family's financial security and their reputation if adequate and comprehensive insurance protection is not in place.

In today's litigious environment, wealthier individuals are unfortunately often more susceptible to lawsuits due to a perception of "deep pockets."



Benefits of Having a Personal Umbrella Insurance Policy

An umbrella policy can help provide peace of mind and extra financial protection. With rising medical costs and increasingly large jury verdicts, even a seemingly minor incident can have significant financial repercussions. In today's environment, you can quickly exhaust your coverage limits.

As you become more successful, having adequate umbrella coverage limits becomes a critical component of a comprehensive insurance program. Should you or your family face legal action, you can be held personally responsible for all settlements and/or jury awards in excess of your limits.

HNW lifestyles come with significant risks and a greater potential for loss. Assets and activities common with HNW families such as high-performance vehicles, pools, yachts, hosting large parties, allowing young operators to drive luxury

vehicles, providing teenagers access to second homes, adventure travel, and more, increase your exposure to risk and liability.

With substantial wealth comes the likelihood that litigious individuals can easily search online to determine your wealth status and the likelihood that "deep pockets" exist, opening the door to a claim pursuit with an eye towards litigation. There are many lawyers ready and willing to optimize maximum payouts.

In extreme cases, a plaintiff, through a court award, may garnish your potential future wages and assets and even put a lien on your property. An umbrella policy or an excess policy adds layers of protection for safeguarding your assets from unforeseeable circumstances.

Determining Adequate Umbrella Insurance Policy Limits

Many people wonder how to determine the right umbrella limit for them. The answer is, "it depends..." A smart approach starts with an accurate assessment of your net worth but doesn't stop there. It also includes evaluating situations that can make you and your family more prone to claims of wrongdoing and litigation. Considering the following questions can help you determine the excess limit amount that will best protect you:

- **Tolerance for risk:**

How much are you willing or able to pay out of pocket in the event of a lawsuit or catastrophic event?

- **Physical assets:**

Take a hard look at your assets. What's publicly visible? Are your homes in affluent areas? Do you live in a condo building, which increases your exposure if you were to inadvertently damage other units? Are your cars luxury models or high-performance vehicles? Notable wealth can prompt bigger claims. Put realistic numbers against those assets and understand that a plaintiff's attorney will do the same.

- **Financial assets, investments, and LLCs:**

What is the total value of your financial assets and investments? Do you have an LLC or trust -- created to protect your identity -- that would come into play during a lawsuit?

- **Future income:**

What is your annual income expected to be in the next 5, 10, 15 years? Future earnings may be taken into consideration during a lawsuit settlement. Your potential income can be seen as fair game in a settlement, and you'll want to protect it.

- **Lifestyle:**

This category includes your occupation(s), activities, and family status. Do you work for a public company where your stockholdings or compensation can be found online? Do you sit on a non-profit board? Are you a high-profile athlete or a big name in politics? Are you in the public eye? Do you have young drivers in the household who are driving your luxury vehicles? Do you employ household staff? Do you and your family post frequently on social media? Do you host parties or events? Is alcohol served? All these factors are considered.

- **Uninsured/underinsured motorists:**

With the increased presence of uninsured and underinsured motorists on the roads, it is important to have excess uninsured/underinsured motorist coverage as part of your umbrella policy. Not all insurance companies offer this, but those specializing in working with affluent and high-net-worth individuals and families offer this coverage.

Umbrella Insurance and Lawsuits

If a serious accident occurs and the parties can't agree on a settlement, a suit will be filed, and you may have to go to court. Litigation can be lengthy, time-consuming, and expensive. If the case does go to trial, a jury will typically take into account **four economic damages to determine a payout amount**:

1. Lost wages from the date of the accident to the date of the trial.
2. Medical bills from the date of the accident to the date of the trial.
3. Future diminished earning capacity, including future salary, bonuses, promotion, and stock options.
4. Pain and suffering of the injured plaintiff. This may also include 'Loss of Consortium' claims from a spouse or other dependent family members including children.

These losses are added together to determine the jury award — the amount the at-fault party will have to pay. If your umbrella insurance policy can't cover the cost, the court may consider your income and net worth, and order a transfer of assets. In extreme cases, the court may garnish your future income and wages until the total is paid overtime.

Laws, statutes, and procedures vary state by state — your liability and exposure may increase depending on where the accident happened. Consult with legal experts to understand the specific laws in your state.

Real-Life Scenarios: Umbrella Insurance in Action

Umbrella policies are a safety net for the unexpected, but what does this look like in real life? Here are some real-world examples of how umbrella liability coverage protected high-net-worth individuals from having to pay over a million dollars out-of-pocket.

• Example one:

A wealthy executive allowed his domestic employee to use his vehicle. The employee struck and killed a pedestrian and fled the scene of the accident. After an extensive investigation by the insurance company, they determined coverage would be triggered since the employee had permission to use the vehicle. The vehicle was impounded, and the driver was sentenced to jail time and faced criminal charges. The primary policy had \$250,000 in coverage, which was maxed out. The suit, which took years, was tendered to their umbrella carrier, who was able to settle the claim at almost \$2 million, which included the primary limit of \$250,000.

• Example two:

A wealthy individual's dog knocked over an elderly houseguest. The guest fell and broke her hip, requiring multiple surgeries and an extended stay in a rehabilitation center. The guest pursued a suit against the dog's owner, which resulted in a maximum payment of \$500,000 from their primary policy and an additional payment of \$750,000 from their excess policy. The total payment issued, which included legal fees, was almost \$1.5 million.

Strategies for Minimizing Liability Exposures

Awareness, thoughtfulness, and preparation are key. Consider taking these proactive steps to reduce the chances of future liability claims. Also, by taking these measures and minimizing your losses, you improve your risk profile, which could help you secure higher limits if needed.

- Keep your driving record clean (no DUIs, no accidents)
- Educate children and teens on the impact of their actions, especially while driving
- Do your best to stay out of the media and news
- Provide job descriptions and annual reviews for domestic and household staff
- Make timely repairs in and around your home
- Keep your property safe from attractive nuisances and areas of danger
- As much as possible, live a lifestyle that doesn't open you up to litigation

Optimizing Umbrella Coverage to Protect Your Lifestyle

Many people think that serious accidents and catastrophic losses will never happen to them. Think again and be prepared. In today's environment – with frequent lawsuits and rising costs – umbrella coverage is more important than ever. It is paramount to work closely with a trusted insurance advisor to develop a comprehensive insurance strategy that includes excess liability coverage tailored to your specific needs. An expert advisor can offer experience-backed advice on limits and the types of policies best suited for your lifestyle.

At times, securing sufficient excess limits may mean working with multiple carriers and layering policies. An expert advisor can help you secure and coordinate layered coverage. It is also important to ensure your policy has defense coverage beyond the liability limit. Should an accident occur, your trusted advisor, working together with their in-house claim experts, can advocate for your interests, maintain discretion, and keep you informed at every step.

As your assets grow, it is important to continue to reassess your limits to make sure you maintain adequate coverage. Reviewing your coverage and assets annually will ensure you are less likely to be caught without proper protection. The peace of mind umbrella coverage offers is priceless, and a comprehensive insurance strategy is essential for protecting your hard-earned wealth. The [private client risk advisors](#) at Risk Strategies are ready to help you secure the insurance solutions you need.

Connect with a Risk Strategies Private Client Insurance Expert

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