

Don't Leave Home without Your Umbrella

By Lawrence B. Keller, CFP®, CLU®, ChFC®, RHU®, LUTCF



In today's litigious society, no one is immune from potential lawsuits. Injured parties are commonly awarded judgments in excess of \$1 million. If your assets are insufficient to pay these claims, your future earnings can be attached

to satisfy the debt. Personal liability insurance protects your assets if you injure another person or damage someone else's property. If you are found legally responsible for causing an injury or property damage, your personal liability insurance will provide a legal defense, if necessary, and pay the claim up to the limits of the policy. This added protection can generally be purchased in amounts ranging from \$1 million to \$10 million or more.

Personal Liability (Umbrella) Insurance

The liability coverage under your homeowners and auto insurance policies is your primary layer of protection. However, if you need additional protection, you will need to purchase an excess liability or "umbrella" policy. Personal umbrella liability protection is secondary coverage that works in conjunction with your primary policy. However, your insurer will require that you have underlying basic liability coverage (usually an automobile or homeowners policy, or both) before you can purchase an umbrella liability policy. When the liability limit of your primary policy is exhausted, the umbrella policy pays the balance of a liability claim against you up to the umbrella policy's limit.

An umbrella liability policy may also protect you from losses that are not covered under basic liability insurance. It covers you against damages for unusual occurrences, including personal injury losses due to libel, slander, wrongful eviction, false arrest, and invasion of privacy. Your umbrella liability policy might also pay for damages incurred worldwide. In addition, an umbrella

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policy might pay a proportionate share of a claim even if your basic liability insurance policy cannot pay its portion, either because you failed to comply with the conditions of the policy or because the company itself has become insolvent.

Let's say you are found liable for a bodily injury claim totaling \$1.5 million as a result of an automobile accident. If your automobile policy's liability limit was \$500,000 and you did not have an umbrella policy, the balance of the claim (\$1 million) would likely be paid out of your pocket. However, if you had a \$1 million umbrella policy,

you would be adequately protected. Your automobile policy would pay the first \$500,000 and your umbrella policy would cover the balance of the claim.

Structure Your Automobile and Homeowners Insurance Policies Properly

Avoid structuring your automobile and homeowners policies with low deductibles. Low deductibles will cause your premium rates to rise substantially. It is best to increase your deductibles and allocate the premium savings toward increasing your liability limits and purchasing or increasing your excess liability or "umbrella" policy's limits. After all, you do not need the coverage for the first \$250 or \$500; you need it on the back end where a judgment could be financially devastating to you and/or your family.

Unfortunately, most Property & Casualty agents will automatically structure your policies to have the minimum amount of liability coverage that is required before your umbrella policy will go into effect. However, the liability limits on your homeowners and automobile policies should be the same.

For example, if you have a \$500,000 liability limit on your car and a \$300,000 liability limit on your home, you might find yourself "out of pocket" for \$200,000 if something happens in the "wrong place." Suppose you go home after a long day at the office and find the mailman collapsed on your front lawn, looking like a snow angel, with letters everywhere. Because this would fall under your homeowners policy, you would be liable for the \$200,000 difference between that policy and your automobile policy.

The same example could go the opposite way. If you have a \$500,000 liability limit on your home and a \$300,000 liability limit on your car, you again might find yourself “out of pocket” for \$200,000 if something happens in the “wrong place.” This time, let’s assume that you are driving home from the office and hit a pedestrian. Your automobile policy would be affected, but because it carries \$200,000 less coverage than your homeowners policy, in this example you would also be liable for that difference.

What Personal Liability Insurance Does Not Cover

Although a personal umbrella liability policy covers more types of hazards than basic personal liability policies, no personal liability insurance policy will protect you against every loss you might face. All types of personal liability insurance generally exclude the following:

- Intentional damage caused by you or a member of your family or household
- Damages arising out of business or professional pursuits, including malpractice claims
- Liability that you accept under the terms of a contract or agreement

- Liability related to the ownership, maintenance, and use of aircrafts, nontraditional watercrafts (like jet skis), and most recreational vehicles
- Damage to property owned, used, or maintained by you (the insured)
- Damage covered under a workers’ compensation policy
- Liability arising as a result of war or insurrection

Other common exclusions under a homeowners policy are damage caused by communicable diseases and acts of war. An automobile policy might exclude accidents and losses that occur overseas or while a vehicle is in transport. Umbrella policies often exclude liability losses related to aircraft, damages caused by watercraft not covered under your homeowners policy, or injuries suffered by someone covered by workers’ compensation.

How Much of an Umbrella Should You Have?

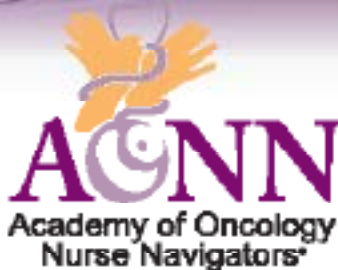
Determining how much liability coverage you need is not an exact science. While a general rule is that you need only enough liability insurance to protect your assets, you

should also consider factors such as how often you have guests in your home, how much you drive, and whether you have teenage drivers at home. Of course, as a physician, you already know that you are viewed as having “deep pockets.”

Summary

If you need more liability protection than your homeowners and/or automobile policies offer, consider purchasing a personal umbrella liability policy. This type of policy can significantly expand your liability coverage by providing a liability limit above that contained in your homeowners and/or automobile policies. Without adequate liability protection, a large judgment against you could put your practice in jeopardy by costing you your assets as well as your potential future earnings and inheritances. ●

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