

What Is Umbrella Insurance - and Do I Need It?

The Simple Dollar

Like an umbrella that protects you from the elements on a rainy day, an umbrella insurance policy can shield your personal assets from large liability claims.

Umbrella excess liability protection can help you avoid financial ruin if you're found to be responsible for legal damages that exceed the limits of your homeowner or auto insurance policies.

"We live in a litigious society," says Carole Walker, executive director of the Rocky Mountain Insurance Information Association. "It's added protection to have peace of mind, knowing that your personal assets aren't at risk."

Umbrella coverage takes effect only after the limits of your underlying homeowner or auto policy has been reached. For example, if you have a homeowner policy with a limit of \$500,000, you can purchase an umbrella policy that will pay claims greater than \$500,000 and up to a limit you choose, such as \$1 million.

This protection covers legal defense costs as well as claims against you. According to a report in USA Today, umbrella policies have a broader range of coverage than homeowner and auto policies. They include claims for such issues as libel, slander, and defamation of character.

Who Should Buy an Umbrella Insurance Policy?

Anyone who has accumulated personal wealth, such as a home, property, or an investment portfolio, can benefit from an umbrella policy. The more you own, the more you have to lose, says Walker.

Umbrella policies also protect people whose personal circumstances make them targets for lawsuits. This may include people who:

Own large-breed dogs

Have swimming pools

Participate in sports or hobbies that could lead them to unintentionally cause harm to others, such as hunting or auto racing

People who have a low tolerance for risk often are attracted to umbrella policies, says Amy Bach, executive director of the United Policyholders consumer group in California.

“If you have a lot of lose, you want to protect it,” she explains.

The Pros of Umbrella Insurance

Here are some of the advantages of having an umbrella insurance policy:

Peace of mind. You’ll know that liability claims that exceed your auto and homeowner policy limits won’t cost you your savings.

Your family and pets are covered. You can’t always control the actions of others. An umbrella policy will cover claims for damages caused by yourself, other family members, or pets.

Your retirement nest egg is secure. An unexpected liability lawsuit could delay your retirement by draining your savings. An umbrella policy make that less likely to happen.

It’s relatively inexpensive. Because an umbrella policy won’t take effect until the limits of your primary homeowner and auto policies are reached, rates are typically inexpensive. The Insurance Information Institute III) says that a \$1 million personal umbrella policy typically costs between \$150 and \$300 per year.

The Cons of Umbrella Insurance

Umbrella coverage has some disadvantages. Here are several:

Insurers may impose coverage requirements. According to the III, most insurers want you to have about \$250,000 in liability insurance on your auto policy and \$300,000 in liability insurance on your homeowners policy before selling you a \$1 million umbrella policy.

There are limits to what is covered. Umbrella policies don’t cover intentional acts of wrongdoing. That means if you’re convicted of a crime, an umbrella policy won’t protect you from punitive damages or court-ordered restitutions.

You’ll need a separate business policy. If you have a business, you likely will need a separate policy to insure you against liability claims that stem from its operation.

Your own property isn’t covered. You can collect on your umbrella policy only if you are found responsible

for causing damages to someone else.

You Don't Have to Be Rich to Need Umbrella Coverage

Although umbrella liability coverage often is considered to be a tool for the rich, you don't need to be wealthy to benefit from asset protection, says Jim Armitage, an insurance agent in Arcadia, Calif.

These policies are designed for anyone who owns their own home or has substantial financial investments, he says.