



## Wealth Planning Report

# Do You Need a Personal Umbrella Policy?

One night, your son borrows your car to go out with friends. While speeding down a road, he loses control on ice—killing one passenger and seriously injuring two others. What would happen to your finances if you're sued by the families of the victims?

Or what if your dog is provoked by a stranger trespassing on your property and bites the person in self-defense—but the person still sues you?

These and similar scenarios are both horrific and all too possible. The good news is that we see many affluent individuals and families proactively facing these types of questions and risks head-on by taking steps to help ensure their wealth is protected from lawsuits resulting from scenarios like these.

Unfortunately, there's one aspect of a strong wealth protection plan that people too often under use or even neglect entirely: an umbrella liability policy.

If you have significant assets, an umbrella liability policy likely makes good sense. Here's a look at why that is.

### Above and beyond

You have insurance policies on your house and vehicles covering far beyond the minimums, of course. You might separately insure other types of property you own, such as art. But do you have enough liability coverage, considering your total personal wealth?

If you're financially successful, and your investments have done well over the years the answer could very well be an emphatic no.

That's because auto and homeowners insurance policies tend to offer maximum liability coverage of \$500,000. That's good—but likely not nearly enough if you find yourself involved in a serious accident or other mishap. For example, people who get hurt on your property may seek a whole lot more than \$500,000 in damages. And, of course, your wealth can paint a target on your back. Once they find out you're worth a substantial amount, an aggressive attorney may well pursue an even larger payout—even if it's unwarranted.

Consider just some of the reasons or situations you could find yourself in that may potentially boost your probability of being sued for significant or unimaginable sums:

- You have a swimming pool, pond or trampoline.
- You have horses or dogs.
- You host large parties in your home.
- You keep guns in your house.
- You employ household staff.
- You serve on a charitable board.

That's where an umbrella policy can make a big difference. Without it, you are on your own. Legal defense can be very expensive even if you win. Also called an excess liability policy, an umbrella policy kicks in when your other liability policies (such as your car insurance) hit their limit.

Example: You are involved in an accident and are sued for \$1 million, but your car insurance covers only \$300,000. In that case, your umbrella policy could cover the difference so you don't have to use personal assets or engage your own attorney.

### Size and Cost

Clearly, then, an umbrella policy is useful to help protect your assets from larger claims and lawsuits that could potentially cause great financial hardship—or even cause financial ruin. An umbrella policy usually covers bodily and psychological injuries, and can even include coverage for slander, libel and defamation. It can also cover damage caused by someone else for whom you're responsible, such as a minor child.

The caveat: To have an umbrella policy, you need to have the other insurance policies (car, homeowners, etc.) with underlying coverage already in place, usually with the same company.

**Important:** Make sure there isn't a gap between your other policies and your umbrella policy. Where your car insurance ends, for example, the umbrella policy should take over—otherwise, you're on the hook for that gap. And if the underlying car insurance policy is not addressing certain risks, the umbrella policy could also miss covering these risks.

## How big is big enough?

While a few affluent individuals and families don't have any umbrella coverage, more commonly we see situations where wealthy individuals and families have umbrella policies that are not large enough to adequately protect their assets. Or their policies have not been updated in a while. If a legal judgment is greater than your liability coverage, you will have to come up with the difference—which may mean selling assets, possibly at depressed prices because of the bind you're suddenly in.

**Pro tip:** A general rule of thumb is that if your net worth is \$20 million or less, make sure your umbrella policy covers what you're worth. If you are worth more than \$20 million, it becomes a question of how much risk you're comfortable taking on or how ownership of your financial assets are structured.

Take extremely wealthy entrepreneurs, for instance. Often, they'll get as large and comprehensive an umbrella policy as possible. While the odds of never having to use it are in their favor and it's even more unlikely that they will reach the limits of the policy, the possible financial downside from a substantial lawsuit due to a serious accident is something they don't want to consider.

That said, it can be challenging to insure up to the amount you wish. That's because many insurance companies cap the size of the coverage they offer, usually at \$5 million. If you require more

than \$5 million in coverage, you may need to enlist a specialty insurance company, which might be able to offer policies of up to \$100 million.

## The cost of coverage

A number of factors determine the cost of coverage, including:

- The number of homes you own, and where they're located
- The number of cars you own and the number of people being covered (including their driving histories)
- The number of boats and/or planes (or other types of vehicles) you own
- The amount of existing liability coverage you already have before adding the umbrella policy

One piece of good news: Umbrella policies tend to be relatively inexpensive, because the severe occurrences that trigger their big payouts are uncommon.

**The upshot:** If you don't have an umbrella policy, run to your agent—don't walk—and get one. If you do have an umbrella policy, make sure you're sufficiently covered—and boost that coverage amount if you're in doubt. Meet with an insurance specialist who works with affluent families and other people like you.

This is an executive summary of our wealth management ebook. For a complimentary copy of our complete report, please [contact us](#).



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Paul founded Professional Financial Strategies, Inc. in 1993 as one of the first fiduciary planning firms that specializes in retirement and wealth management for affluent and aspiring families. Paul is a personal chief financial officer acting in best interest of clients. He brings together a proven process and a network of specialists for making informed decisions for systematic strategies, secure income, mitigating taxes, protecting assets, and preserving wealth for family and purposeful causes.

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