

# Do You Need the Umbrella?

*Odds are **you**'ll never be sued for a million dollars. But what if **you** are?*

It's unspeakable, unthinkable: **You**, or your teenager, cause an auto accident that leaves a passenger in the other car permanently disabled. It gets worse: The injured person sues **you** for \$1 million --- and wins.

How could **you** pay that much? Your automobile insurance might cover part of it, say \$100,000 to \$300,000. What about the rest? **You** could lose almost everything for which **you** have worked a lifetime, and **you** could still be paying years from now.

Unless, of course, **you**'re among the growing number of people who own \$1-million personal **umbrella** liability policies. In such a situation, an **umbrella** policy would kick in to cover the balance of the judgement, saving your assets.

If **you** think it's unlikely that **you**'ll ever **need** such protection, **you**'re right. Accidents that result in claims for huge amounts are rare. That's precisely why **you** can get \$1 million worth of extra insurance for \$100 to \$300 a year. Fireman's Fund, for example, reports fewer than 40 claims a year on its 40,000 personal **umbrella** policies.

But it takes a only one brush with tragedy to ruin **you**. "Severity, not frequency, is the critical point," says Naig Neville, an insurance consultant in West Bloomfield, Michigan. He calls **umbrella** liability policies "peace-of-mind insurance."

Don't think efforts in Congress to reform the legal system, including a possible cap on punitive damages in some type of cases, will reduce the risk. The proposed changes wouldn't apply to most suits brought by one individual against another.

## WHO NEEDS AN UMBRELLA?

"A kid with a boombox won't buy an **umbrella** policy," says Robert Hunter, director of Consumer Federation of America's Insurance Group and former Texas insurance commissioner. But, he adds, "the more significant the assets, the more advisable the insurance."

"The **need** depends on your vulnerability," says William Warfel, professor of insurance and risk management at Indiana State University. When assessing whether **you**'re vulnerable, begin by considering that the vast majority of claims under **umbrella** liability policies --- 80% to 90% at one company --- spring from auto-related incidents. If **you** drive a car, then **you**'re at risk.

## OPENING AN UMBRELLA

Basically, **umbrella** policies sit on top of other insurance that includes liability protection, such as homeowners, auto and boat policies. When your primary insurance is not enough, the **umbrella** policy is triggered, spreading its protection (hence the term "**umbrella**"). **Umbrella** policies typically cover **you** and your family members who live with **you** for accidental injuries to another person or another person's property.

The smallest policies (and the most common) pay up to \$1 million per incident beyond what's covered by the underlying policy. If **you** have \$300,000 of personal liability protection on your auto policy and a \$1 million **umbrella** policy,

then under most policies **you** would have a total of \$1.3 million worth of insurance standing between an injured party and your assets.

Claims against individuals rarely go that high. According to State Farm, which has 1.4 million **umbrella** policies in force, the average total payout in cases in which the policies come into play falls between \$300,000 to \$500,000.

The easiest way to buy an **umbrella** policy is through the same company that handles your homeowners or auto insurance. In fact, **you** may have to buy from the same insurer because some companies require that **you** purchase one or more underlying policies from them before they will issue an **umbrella** policy. Insurance companies also require that **you** maintain certain minimum levels of liability coverage on the underlying policies --- perhaps \$300,000 on an auto policy and \$100,000 on a homeowner's policy. The **umbrella** protection kicks in only when those levels are exceeded.

A mistake here could be costly. Say **you** buy your **umbrella** policy from your homeowners insurance company and it requires that **you** maintain \$300,000 worth of liability protection on your auto policy. If your liability protection under your car insurance is only \$200,000, **you** might have to fill the gap --- \$100,000 before the **umbrella** will pay a cent.

Other points to check as **you** shop for protection:

- **Is all your estate covered?**

Homeowners insurance typically covers one or two homes, such as your primary residence and a vacation home. But if **you** want to cover more than that with an **umbrella**, or if **you** rent out a home, **you** may **need** separate underlying insurance.

- **Is your home-based business covered?**

Most homeowners policies **do** not automatically cover home businesses, so an **umbrella** policy would not either. Alex Soto, an independent insurance agent in Miami, says your best bet may be to buy a separate home-based business policy or a regular commercial policy to get the coverage **you need**.

- **Are you on the board of a non-profit?**

Many homeowners policies **do** not cover claims arising from this kind of activity, and **umbrella** protection is iffy. Find out whether the organization has directors and officers insurance that covers **you** if **you** are sued as an individual, and ask what kinds of claims trigger coverage.

Make sure **you** discuss issues and other risks **you** face with your insurance agent. Disclosure of risks is the best way to make sure that **you** are covered later.

But it's not just car wrecks that **you** have to worry about. Consider the following situations in which an **umbrella** policy could pay off: A friend breaks a leg after slipping in your basement steps; a babysitter is partially blinded when she is poked in the eye by one of your kids; your dog bites and disfigures a neighbor; a cyclist with whom **you** collide suffers a disabling injury. (See box on last page for examples of other accidents that have resulted in big payouts.)

An **umbrella** policy can extend your protection to situations in which **you** would otherwise not be covered. For example, unlike your basic auto insurance, it covers **you** when **you** rent a car in a foreign country, as long as **you** buy enough

of the rental company's liability coverage.

Most **umbrella** policies would also protect **you** if **you** were sued for libel, slander, defamation of character, or invasion of privacy. If **you** are wondering why **you** might **need** to worry about such things, note that cases have arisen among "friends" in social settings in which one person accused another of lying. **You** might scoff that such scenarios are merely evidence of a lawsuit-happy society. But remember that even if a court ultimately rules that a suit is without merit, **you** still have to defend against it. That in itself can be expensive. Both primary and **umbrella** insurers have the obligation to defend **you**, even if a suit is determined to be frivolous, and in most cases they **do** it without cutting into the face value of your policy.

Whether **you** should buy an **umbrella** policy depends almost as much on your tolerance for risk as it does on the assets **you** want to protect. At some point as your assets grow **you** may **need** one; however, not having an **umbrella** policy is foolhardy.

**Take this quick test** to measure the risks **you** face. In most cases, the more often **you** answer yes, the more likely **you** **need** an **umbrella** policy. But for some people, one "yes" answer is sufficient to make them candidates for insurance.

- **Do you** own your home or condo?
- Is there a teenage driver in the family?
- **Do** babysitters or cleaning people work in your home?
- **Do you** have a swimming pool?
- **Do you** ever leave your home in the care of a housesitter?
- **Do you** regularly ferry other people's kids around in your car?
- **Do you** have a big or excitable dog?
- Are **you** active in sports, such as golf, biking, skiing, or mountain climbing?
- **Do you** own a boat?

## **THE PERILS AN UMBRELLA POLICY CAN PROTECT AGAINST**

AUTO ACCIDENTS cause most of the personal injuries that result in huge monetary settlements paid by **umbrella** liability insurance. But there are plenty of other calamities that can put your assets at serious risk. Consider these recent real-life cases:

- **You** know the game: One person kneels behind another and a third pushes the "victim" over. In a case settled last year, three 10-year olds were the players. One child broke his arm and the other two were sued. The case cost the kneeling boy \$100,000 and the one who did the pushing \$195,000.
- A 40-year-old window washer broke his heel in a fall after a downspout he was holding onto broke away from the house on which he was working. Although the worker was found partially responsible, the fall cost the homeowner \$1.2 million.
- A 22-year old suffered permanent eye damage when he was struck by a golf ball. He sued claiming that the golfer who hit the ball had failed to look out for other players. The errant shot cost the golfer \$160,000.
- A professional dancer suffered permanent knee damage --- an end to her career---when she was knocked down on a beginner's ski slope. She offered to settle for the \$300,000 covered by the defendant's insurance, but was rebuffed. The case went to trial, where it cost the defendant \$2.2 million.

- A woman suffered severe cuts when her leg was hit by the propeller of a boat she was attempting to board. She sued, claiming that the boat began to move before she was safely aboard. The injury cost the boat owner \$175,000.
- At an end-of-school swim party, a 16-year old dove and hit his head on the bottom of the pool. He became a quadriplegic, and the case resulted in a \$1.5 million settlement against the homeowner.
- A 5-year old suffered brain damage when a dinner bell at his grandfather's home fell and struck him in the head. A lawsuit against the grandfather led to a \$500,000 settlement.

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