



## Should You Have Umbrella Insurance?

By Leigh Bivings, Ph.D., CFP®

One of the first things I check when examining clients' home and auto insurance policies is whether they have sufficient umbrella insurance coverage. It's often overlooked by clients, yet having the extra layer of protection should be a critical part of their overall insurance package. In this note, I explain the ins and outs of umbrella insurance and why most, if not all, of my clients should have some.

### What is Umbrella Insurance?

Umbrella insurance is extra personal liability insurance. It comes into play when you have a claim in excess of the standard liability limits on your auto, boat and home policies (typically either \$300,000 or \$500,000). It also provides coverage for claims often excluded in other liability policies such as libel, slander and false arrest.

### Who Needs Umbrella Insurance?

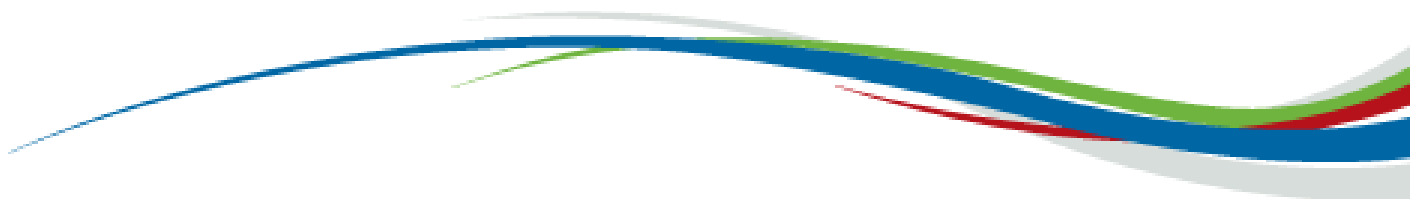
In my view, almost anyone with unprotected assets greater than \$1.0 million needs some umbrella coverage. We, unfortunately, live in a very litigious society, and so it is a real possibility you will be sued if you are ever found at fault in a major automobile accident, a mishap on your property or either while traveling abroad.

Consider the following real life scenarios:

- Your daughter's friend falls off the trampoline in your yard, resulting in serious injuries.
- Your dog bites a neighbor, and you are sued for damages.
- Your teenage driver hits a pedestrian and it's his/her fault.
- A friend's child drowns in your swimming pool.
- Your babysitter trips on your porch.
- Your son bullies a fellow student on Facebook and is sued for slander.

### How Much Do I Need?

The rule of thumb, according to many insurance agents, is that you should carry coverage roughly equal to your net worth, less any assets protected from creditors. The logic is that while it is possible to be sued for more than you are worth, it is very unusual, as the person on the wrong side of the judgment would likely file for bankruptcy and the plaintiff would have to stand in line with all of the other creditors.



## How Much Does it Cost?

Umbrella insurance is not expensive. A \$1.0 million policy for a person who doesn't have a high risk profile is around \$200-250 annually, and the rates per million decline as coverage increases.

However, this can be the reverse for insurers who specialize in middle- and lower-income clients. Often their rates shoot up after the first million in coverage because they have only a few buyers in that category.

Rates will also vary depending on the number and nature of risk factors the person has. In short, it pays to shop around.

## What Else Do I Need to Know?

One key to purchasing umbrella insurance is to first ensure you have the required specific levels of underlying coverage on your auto and home insurance policies. You don't want a gap in coverage between your underlying home and auto insurance and the amount

at which the umbrella kicks in. Another key is understanding whether the defense costs are included in the umbrella limit or are additive to it. Policies from carriers that specialize in serving high-net-worth clients typically will pay for legal costs outside of the liability coverage limit, removing any worry about the cost of defense.

## Bottom Line

If have assets you want to protect, you should consider adding an umbrella policy to your home and auto policy. It's cheap protection that could be worth a lot.

**Artemis Financial Advisors**  
54 Chandler Street  
Boston, MA 02116

617-542-2420

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