

Mar 5, 2012, 11:16pm EST

The 1% Fear Being Sued But Shun Umbrella Insurance



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Personal Finance

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Given the current bitterness towards the 1%, most wealthy individuals fear they are an attractive target for liability lawsuits, yet they lack a basic umbrella insurance policy, according to a report issued by [ACE Private Risk Services](#) today, based on a survey of folks with assets of \$5 million and up. One in five of those surveyed don't have an umbrella policy, and of those who do have a policy, nearly one in four reported having less than \$5 million in coverage. Call it the uninsured/underinsured problem of the wealthy.

Why have an umbrella? Umbrella policies kick in on top of auto and home insurance, giving you extra liability coverage. The ACE report includes examples of grisly accidents (decapitation) and outsized verdicts (ranging from \$14 million to \$49 million), courtesy of defense attorneys. "Severe things can happen," says Robert Courtemanche, ACE president, adding that folks don't appreciate how much exposure they have as they lead their everyday lives until an agent walks them through the risks. Think dog bites and defamation charges from sending taboo tweets. Even fender benders can turn ugly. One example:

"An individual was involved in a minor accident on his way to an airport. Both he and the driver of the other car agreed they felt fine and didn't need police assistance – until his relative arrived in a \$200,000 car to help him catch his flight. Suddenly, the other driver complained of pain and insisted they call the police. The case was eventually settled for a substantial sum."

The right umbrella amount depends on where you live, your profession and your aversion to risk. Liability coverage in home and auto policies rarely exceeds \$500,000, yet 13% of personal injury liability awards and settlements are \$1 million or more, according to the report, citing data from Jury Verdict Research. The amount of coverage you choose should bear some relation to your net worth. But note: if you're worth \$1 million, a \$1 million umbrella is not going to protect you from a \$2 million legal judgment, since it would still be worth a lawyer's time to go after your

personal assets. So even if your net worth is below \$2 million, you should consider a \$2 million umbrella.

Don't skimp on coverage. Coverage at least equal to your current net worth is the typical recommendation. However, if coverage falls short, a judge could order you to pay up, liquidating savings and investments (retirement plans and trusts are usually safe), real estate and personal property—and even garnishing your wages. Consider adding coverage to equal the present value of your employment income stream.

How much do umbrella policies run? The typical annual cost quoted by ACE for a client with one home, two cars and two drivers is \$383 for \$1 million in coverage, \$474 for \$2 million in coverage, \$608 for \$5 million in coverage and \$999 for \$10 million in coverage. Add two more homes, two more cars, one boat under 26 feet, and a driver under age 25, and it costs \$563 for \$1 million in coverage, \$1,578 for \$10 million in coverage, for example.

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Don't shop on price alone. Policies for high-net-worth clients will have higher coverage limits but also other benefits. You can get reimbursed for the cost of hiring a public relations firm to deal with fallout from a lawsuit, for example.

Consult with an independent insurance agent. It's important that your agent is dedicated to personal property and casualty insurance (not commercial insurance) and will take the time to review your physical assets, financial assets and lifestyle to shop providers and find you the right policy.

Mind the gap. An umbrella policy kicks in where your auto and home policies end, so if your umbrella policy coverage starts when losses exceed \$500,000, then the auto and home policies must provide coverage up to \$500,000, not less. If there's a gap, you're on the hook, having inadvertently self-insured for the difference.

Play it safe. Do you have a swimming pool, a trampoline, a tree house, a play set, an ATV or a dog? These potential dangers add to your risk profile. "No one is saying you have to live your life differently, but you should protect yourself from unforeseen events" says ACE's Courtemanche, who let his two sons play on a trampoline in the backyard before they came with built in netting. Another option: consider trashing the trampoline that came "free" with your new house in the suburbs.

The full report is: [Targeting The Rich: Liability Lawsuits and the Threat to Families with Emerging and Established Wealth.](#)



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