

The Personal Umbrella Policy An Invaluable Component of Your Insurance Portfolio

As the old adage goes, “You do not have to be a *billionaire* to be sued like one.” The fact is, a single lawsuit, even if you win, can end up costing hundreds of thousands of dollars and sometimes in excess of a million dollars. In today's society, more people file lawsuits for more money than ever before. The personal liability coverage available through a homeowners or automobile policy is simply not enough to protect you. An umbrella policy can offer a higher level of liability coverage protecting you and your family from damages for which you may be held responsible.

The greater your assets, the *more* you potentially have at risk. Umbrella coverage can help protect you against personal liabilities that could attack a substantial portion of your current assets, future assets or future earnings.

What is a personal umbrella liability policy?

A personal umbrella liability policy is an insurance contract designed to increase the liability protection over and above a standard home and/or auto insurance policy. The personal umbrella extends your liability protection beyond the primary policy limits - usually sold in million dollar increments. An umbrella may be obtained once your home and auto insurance policies meet a minimum “attachment point” (typically, a liability limit of \$250,000 or \$500,000).

Personal umbrella policies provide four elements of coverage:

- **Personal injury:** Includes mental anguish, false arrest, wrongful entry/eviction, malicious prosecution, libel, slander, defamation of character, invasion of privacy or negligent infliction of emotional distress
- **Bodily injury:** Includes physical injury or death - in some jurisdictions, this includes emotional injury
- **Property damage:** Includes destruction of the property of others, cost of recreation, and loss of use. Worth noting – an umbrella policy **does not** provide coverage for your own property (such as not having sufficient limits to cover a homeowner's loss)
- **Defense coverage:** Includes groundless, false, and fraudulent suits, loss of earnings, bail bond costs and other reasonable expenses

What does an umbrella cost?

The price of an umbrella policy depends on three main rating factors – the dollar limit of coverage, the number of properties owned/rented and the number of automobiles/watercraft owned. The cost associated with automobiles and watercrafts are much higher than the cost for each property location.

For example, the premium for a \$5 million umbrella for an individual with one home and one auto ranges from \$270 to \$550 per year. The cost of a \$10 million umbrella for a family with two homes, one rental property and three autos ranges from \$970 to \$1,750.

Fort Point Insurance Services, Inc.

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Not all personal umbrella policies offer the same coverage...

A handful of specialty insurance companies (notably: Chubb, Fireman's Fund and AIG Private Client Group) offer unique or expanded options, such as:

- **Personal injury:** Enhanced coverage for individuals in the public eye – libel and slander coverage is often excluded by most standard insurance companies.
- **Not-for-profit directors and officers coverage:** Coverage if you are sued for personal injury or property damage resulting from your volunteer service on the board of a not-for-profit organization and/or homeowners association
- **Uninsured/Underinsured motorist protection:** Provides higher limits for uninsured/underinsured coverage and/or property damage from an uninsured driver
- **Employment-related lawsuits:** It is not uncommon for domestic staff such as nannies, housekeepers, private assistants, gardeners and other domestic staff to take their employers to court citing claims of wrongful termination, sexual harassment and discrimination
- **High Limits:** Most insurance companies provide a maximum limit of \$3 - \$5 million. Few carriers regularly offer coverage from \$5 million - \$10 million. With very few exceptions, only three carriers offer \$10M or more. Chubb, AIG Private Client Group and Fireman's Fund are the only three insurance carriers with capacity to provide coverage up to \$100 million. Additionally, these companies are backed by the highest ratings for financial strength and claims paying ability. Only Chubb, Fireman's Fund and AIG Private Client Group offer such high limits in one convenient policy
- **Unlimited Defense Costs:** Most companies limit the amount of money associated with the cost to defend a lawsuit. With Chubb, AIG Private Client Group and Fireman's Fund the defense costs are *unlimited* – even if the cost exceeds the stated policy limit

Real Life Scenarios

- *You drive down a busy street and accidentally injure a successful entrepreneur in the crosswalk. Medical costs, lost earnings and damages amount to millions.*
- *A 15-year-old guest at your son's pool party dives unknowingly into the shallow end of your pool, and suffers devastating paralysis and injuries amounting to millions.*
- *Your tenant sues you for wrongful eviction, unlawful entry and slander. The cost to defend may be in excess of \$100,000.*
- *You're having a wide-screen television delivered to your home, a deliveryman slips on your wet steps and fractures his skull. Damages are several hundred thousand dollars.*
- *While carrying your umbrella in the rain, you accidentally poke the eye of an executive. The executive loses her eye and the injury causes significant disfigurement. Medical costs, lost earnings and damages amount to millions.*

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How much coverage do I need?

While many financial advisors recommend that your umbrella policy be equivalent to your net worth, they neglect to consider *risk factors* that could leave you exposed. A judgment against you may exceed your entire savings. All of your assets are at risk - even your home and future earnings. We recommend that clients review *risk factors* as a measurement of probability. Affluent individuals and families that have five or more *factors* should consider an umbrella policy of at least \$5 million. Those with six or more factors may need a \$10 million umbrella or higher.

Risk Factors:

- Earn a high income, anticipate a significant inheritance, have a net-worth over \$250,000
- Own an expensive automobile – accident victims tend to have complicated injuries and are less compassionate when hit by a luxury automobile
- Own a swimming pool, hot tub or spas
- An individual in the public eye - a CEO, senior executive, notable shareholder, government official, celebrity, or sports figure
- Own rental property (wrongful eviction, unlawful entry, slander, malicious prosecution may be included in umbrella policies)
- Dog owners, especially a breed with a high occurrence of attack or biting (however, even a Pomeranian has killed two over the past twenty years – *source CDC Dog Study, 2002*)
- Transport others, particularly children or the elderly
- Have teenagers
- Like to entertain others at your home (dinner parties, pool parties and cocktail parties)
- Own a motorboat, sailboat, personal watercraft or snowmobile
- Serve on a homeowners association board or a nonprofit board of directors
- Own a vacation home
- Own property on a steep hillside – damage caused by landslides to the property of others is covered under personal liability (however, damage to *your* property is excluded)
- Own firearms
- Employ domestic help and/or occasional workers

Consider Increasing or Adding Umbrella Coverage

Umbrella coverage can help protect you against personal liabilities that could attack a substantial portion of your assets or future earnings. For a few hundred dollars a year, you may add an umbrella policy or increase your policy limits commensurate to your growing assets and “risk factors.” Talk to your personal insurance agent regarding this important coverage.

About Fort Point Insurance

Fort Point Insurance Services, Inc. provides comprehensive insurance products and services to help meet the unique risk management needs of affluent individuals and families. Working with clients and their most trusted advisors, we analyze coverage gaps, identify potential loss exposures, and recommend proper limits of liability to protect both property and financial assets. We accomplish this by drawing on our relationships with the nation's most respected insurance carriers, and from our own experience in serving the private client personal insurance market. Based in San Francisco, we work with individuals and families across the United States and around the world.

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