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Umbrella Policies Fill In Some Gaps

By CONRAD DE AENLLE

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AFTER sorting out health, home, life and car insurance, personal liability coverage may seem like a policy too far. But in a world filled with lawyers and bad luck, financial advisers find it vital.

A personal liability policy, commonly called an umbrella policy, is a last line of defense against lawsuits, advisers explain. When other insurance has reached its limit, an umbrella policy will pay claims up to the amount covered.

Consider this situation: Someone slips and falls on your icy driveway and then you run over and kill the person while backing out of your garage. If you have \$1 million limits each on your home and auto policies and the victim's estate wins \$10 million in a negligence judgment, you could face financial ruin unless you have an umbrella policy that covers the difference.

The insurance also pays off if there is liability for something more obscure, like slander, libel or false arrest.

Financial advisers generally recommend the insurance to any client with significant assets to protect, often before discussing anything else.

"We talk to them about umbrella coverage almost upfront," said David H. Bugen, an adviser at RegentAtlantic in Morristown, N.J. "When you do financial planning, clients want to go from Point A to B, and one of their biggest concerns is what will keep them from getting there."

Near the top of the list is "an event that's unlikely to occur, but if it occurs it can disrupt your financial future forever," Mr. Bugen said. "You want to insure against a large catastrophic risk and cover smaller risks yourself."

Peter E. Lang, managing director of HighTower Advisors in Harrison, N.Y., likewise finds an umbrella policy essential, even for someone who owns a home and little else of great value.

An often cited appeal of the insurance is that it doesn't make judgments.

"The thing I find most interesting about this is that it doesn't matter whose fault it is," said Jonathan R. Foster, chief executive of Angeles Wealth Management in Santa Monica, Calif.

"If someone dies in a car accident and it's your fault, it goes a long way to protecting you or your family."

A long way, but not necessarily all the way. Aside from the maximum benefit written into all policies, the insurance cannot get someone out of a criminal charge that might result from negligence or worse.

Some may consider the chances of having to make a claim on an umbrella policy too remote to make it worth buying.

But “because it happens so rarely, it’s actually quite cheap,” Mr. Foster said.

The annual premium is about \$500 for every \$1 million of coverage, although people whose lifestyles are believed to expose them to greater risk typically have to pay more. Also, Mr. Foster said, underwriters of umbrella insurance may require policyholders to raise the limits on their car and home coverage, incurring higher costs there.

The consensus among financial advisers is that coverage on personal liability insurance should roughly equal a policyholder’s net worth. It is possible that someone will be sued for more than that figure, but in their experience it is unusual.

Up to that amount, the policy pays off; substantially more than that and the policyholder on the wrong end of a court judgment is likely to file for bankruptcy and the plaintiff will have to stand in line with other creditors, advisers say.

Personal liability protection is seldom sold on its own. It is usually tacked on to other types of insurance because insurers want to be certain that customers have enough coverage that pays out ahead of an umbrella policy. Advisers note that bundling can make the various policies cheaper than if they are bought à la carte.

As with any insurance, it pays to shop around. Mr. Bugen, the RegentAtlantic adviser, recommends getting quotes from agents who have expertise in personal liability policies.

Mr. Lang at HighTower encourages prospective policyholders to make sure that the company that underwrites the coverage is a large, well-established one.