

# Why should I buy umbrella insurance?

You should consider buying umbrella insurance if you have assets greater than what your other policies' liability limits are. For example, if your auto policy is \$100,000 per person and \$300,000 per accident, and if you have assets including a mortgage that's worth more than \$300,000, then you should probably consider buying an umbrella policy. A \$1 million umbrella will extend your auto liability limits to \$1.3 million per accident.

**Note:** A personal umbrella policy **will not** cover your business. If you own a business, you'll need a commercial umbrella policy. Similarly, a personal umbrella will not cover a farm. You'll want to buy a farm umbrella policy for that.

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## What is umbrella insurance?

Umbrella insurance is a separate insurance policy that acts as a liability "umbrella" in the sense that it extends over almost all of your underlying insurance policies, such as your auto, home, motorcycle, and boat policies.

It's a liability-only policy, meaning there is no physical damage coverage for anything. It simply gives you extra liability limits that you can use if you exhaust your auto or home liability limits in a claim.

Most insurance companies offer umbrellas in million dollar increments, often starting at \$1 million and ending at \$5 million. Some companies might offer a lower limit, such as \$500,000, while you'll probably have to go through a very large insurance company to get limits higher than \$5 million

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## **What are the factors involved with vacation home insurance?**

Let's be upfront: The quotes for a vacation home are typically higher than if the same home were your primary residence. The reasons for high premiums include:

- The property is typically left vacant
- Susceptibility to natural disasters (i.e., earthquakes, flooding, erosion, wildfires)
- Access to emergency services (i.e., a house fire)
- Rate of crime in the area
- The home is used as a rental property (including VRBO, Airbnb, etc.)

Each of these factors plays a role in the greater likelihood of filing an insurance claim, hence the costs.

Insuring a vacation home is relatively simple: homeowners can purchase an independent home insurance policy for the seasonal/secondary residence.

Some companies, such as Farmers Insurance, don't require you to have a homeowner's policy to insure your seasonal or vacation

home. Either way, premiums are based on the same factors as any other residence. These include:

- Replacement cost value of the property
- Deductible
- Other applicable risks (see above)

Of course, nearly every vacation home insurance company applies different surcharges and prices their premiums at different amounts.

To give you an idea of how much it varies, Nationwide currently applies a 20% increase to policies covering secondary vacation homes, and State Farm only charges 10% for the same coverage. To make things even more complicated, you may be able to lower the cost if:

- The company also insures your primary residence
- A full-time housekeeper lives in the vacation home
- A caretaker lives on the grounds of the property
- A maintenance company regularly checks on the property

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## **What is vacation home insurance?**

A vacation home insurance policy is designed to provide coverage for your secondary property. It's also known as seasonal home insurance and secondary home insurance, depending on your intended usage of the property.

Vacation home insurance covers property damage, liability claims, burglary, recreational vehicles and more depending on the conditions of your policy.

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## **Is condo insurance mandatory?**

Condo insurance may be a legal requirement depending on your state and municipality, but even if it's not mandatory, it's a practical necessity. Your homeowners association may require you to have it. Your bank will almost certainly require it if you're planning to get a mortgage.

That's because a crisis in your condo doesn't just affect you—it affects the units around you and affects your lenders if you can't afford to make payments. Condo insurance is usually even cheaper than homeowners insurance. There's no real reason not to have it, and many, many reasons why you should have it.

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## **What risks do condo owners face?**

Condos often come equipped with special safety equipment. Sprinklers and high-tech security systems are way more common in large condo complexes than they are in your typical single-family home. Condos are also commonly smaller than single-family homes, which means they're usually less expensive to repair.

Insurance companies love both of those things and often offer better rates to condo owners because of it. However, there are still plenty of risks for condo owners to consider:

- **Crime:** Criminals and vandals could damage your condo and steal or destroy the stuff inside it.
- **Natural disasters:** Fire, hurricanes and other forces of nature can strike condos just like single-family homes. Your homeowners association may pay to repair the building, but you'll still be on the hook for damage to your unit.
- **Legal issues:** Living in a condo typically means living in close quarters with your neighbors. That can mean legal trouble down the road if you get into conflicts about noise, renovations, sublets, short-term rentals like Airbnb, and more.

Condo insurance is designed to cover these and many more sticky situations for condo owners.

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## Is condo insurance covered by the homeowners association (HOA)?

Sometimes, homeowners associations pay for [dwelling insurance](#) as part of your association dues. You'll still need to purchase personal property and liability coverage, but you won't have to worry about structural damage.

However, you definitely shouldn't assume that your homeowners association will cover everything. Always ask what they cover and what you're responsible for yourself, preferably before you even make an offer on the condo.

Most of the time, condo owners will bear 100% of the responsibility for insuring their unit. Help from your homeowners association is the exception, not the rule.

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## What is condo insurance?

Condo insurance, also called H06 insurance, has three parts:

- **Dwelling insurance:** Covers structural elements like walls and floors.
- **Personal property insurance:** Covers your possessions stored in the unit.
- **Liability insurance:** Covers legal fees if someone sues you in cases related to your home.

Condo insurance works similarly to single-family homeowners insurance, but it's usually a little more customizable. You may decide that you only want to buy personal property and liability insurance if your dwelling insurance is covered by your homeowners association.

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# What are liability auto insurance limits? Plus: An example

Your auto liability insurance coverage will typically have three limits: bodily injury for each person, bodily injury for all persons involved, and property damage. Your insurance company will pay up to that established limit. If costs exceed your limit, you will have to pay out of pocket.

If you have a 30/60/15 policy, this means your insurance company will pay up to \$30,000 for one person's bodily injury costs, up to \$60,000 for all bodily injuries in the accident, and up to \$15,000 for property damage.

Note that some insurance companies issue "single limit" liability policies, instead of split limit policies. A single limit policy would cover the costs of injuries and property damage together, up to the total limit.

For example, a 300 policy would cover \$300,000 of bodily injury and property damage liability *combined* after an accident.

If you cause a crash in which people are injured and the other vehicle is damaged or totaled, here is how your insurance will pay the costs if you have a 30/60/15 split limit policy:

- Your liability insurance will pay up to \$30,000 for any one injured person, including hospitalization, treatment and lost wages.
- It will pay up to \$60,000 for all injury costs if multiple people are injured.
- It will pay up to \$15,000 for all property damage you

cause.

If the total costs of the accident amount to \$100,000 for all injuries and lost wages, and \$20,000 in property damage, the out-of-pocket costs you will be responsible to pay are:

- \$40,000 in bodily injury costs
- \$5,000 in property damage costs
- Totaling \$45,000 out of pocket

***Based on your policy, you would have to pay \$45,000 in out-of-pocket costs to cover your legal responsibility.***

Unfortunately, many people purchase only the minimum liability coverage required by their state, leaving them exposed to enormous expenses if they cause an accident. Be sure to talk with your agent about the appropriate amount of liability coverage for your financial protection.

You may also want to consider an “umbrella policy,” which can provide excess liability coverage that can protect you if your legal responsibility in an accident far exceeds your auto liability coverage limits.

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## **What does liability insurance cover?**

If you cause an accident or cause injury to another person or their property with your vehicle, your liability insurance will help to cover your legal obligation, up to the limits of your policy.



There are two types of legal obligation:

**Bodily injury liability:** If you cause an accident that harms another person, your liability coverage will pay for “pain and suffering” claims, medical expenses including hospitalization and surgery, and even lost wages for the injured parties, up to your policy limits. Bodily injury liability typically has two limits: one for each person injured, and one for the total injury costs of the accident.

**Property damage liability:** If you cause an accident that damages or destroys another person’s car or truck, your liability insurance will pay for the repairs to the other driver’s vehicle, up to your property damage limit. Likewise, if you run into a building or drive into a hedge, your property damage liability coverage will cover the costs of replacing or repairing the damaged items.

Liability insurance also helps to cover the costs of lawsuits arising from an accident. If an injured driver or passenger files a lawsuit against you, your liability insurance will help to pay for your legal defense. Note that you will probably need legal defense in court, whether or not you are found at fault for the damage.