

Examples of umbrella liability claims

Umbrella liability claims are no different than regular liability claims, other than the underlying policy doesn't have high enough limits so the umbrella kicks in. The most common types of claims that need to dip into an umbrella include:

- **Serious car accidents:** Thousands of people die in car accidents each year, with thousands more having serious hospitalizations. The bill for these types of accidents can easily exceed \$500,000, which you would be on the hook for unless you have an umbrella policy.
- **Dog bites:** Most dog bite claims are adequately covered by homeowners liability limits, but if there's a tragic death involved, you could be sued for more than that.
- **Trampoline accidents:** Similar to dog bites, if there was a tragic accident that resulted in a death, you could be sued for more than what your homeowners insurance liability covers.
- **Swimming pool accidents:** Serious injuries, paralysis, or death could result in you being sued in the hundreds of thousands of dollars or more, meaning you'd need an umbrella policy to cover those costs.

What does umbrella insurance

cover?

Umbrella insurance covers lawsuits, settlements, and legal defense costs that you're involved in, as long as the reason for the lawsuit is covered in the policy. The lawsuit must be a civil lawsuit, known as a tort, and not a criminal one.

Simply put, if you're involved in a lawsuit that one of your primary insurance policies is paying for, such as an at-fault auto insurance claim, then your umbrella policy would act as an extra source of liability money.

For example, many people buy a \$1 million umbrella policy. Let's say your underlying auto insurance limits are \$100,000 per person and \$300,000 per accident. If you're involved in an accident with four people and all four of them have serious injuries totaling \$250,000 for each person, then you'd owe a total of \$1 million in injury claims.

Your auto policy would pay out \$100,000 to three people for a total of \$300,000 paid from your auto policy. But it won't pay more than that, since your limit is \$300,000 per accident.

Without an umbrella, you would be on the hook for the other \$700,000. But since you have a \$1 million umbrella policy, then it will pay for the remaining \$700,000 from your accident.

Note: It's possible that your umbrella policy would pay for a claim that your homeowners or auto insurance doesn't, though these type of umbrella policies aren't as common today.

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.

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