Do you need umbrella liability insurance?



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Accidents happen. And if you're found responsible for injuring someone or damaging their property, you could be on the hook for a lot of money, which can impact your savings and prevent you from reaching your goals. Your homeowners/renters and auto insurance offer some protection, but only up to certain limits. If you have a large amount of assets or are risk averse and have high exposure to liability, you might benefit from umbrella liability insurance for additional coverage.

Understanding liability insurance

What it covers

Liability insurance generally covers the costs, up to the amount of coverage purchased, if you or any member of your household (including pets) is deemed responsible for injuring others or damaging their property. For example, it might protect you if a tree on your property falls on your neighbor's house, your child causes a car accident, your dog bites a pedestrian during a walk or someone gets injured while working in your home. Liability insurance commonly covers repairs to property, medical expenses and loss of income caused to others as well as your legal costs if you get sued.

Depending on the type of policy you have, liability insurance might also protect you against actions that don't result in physical injury or damage to property but cause emotional distress or harm someone's reputation. An example would be getting sued for a social media post you made.[1]

1 Liability included in a homeowners insurance policy doesn't typically include protection against these personal offenses, but you may be able to add it through a personal injury endorsement. Umbrella liability insurance generally includes protection against these events.

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It's also important to understand that liability insurance will not cover:

- Damages to your property that would generally be covered by separate provisions of your homeowners/renters or auto insurance
- Injuries sustained by you or members of your household that would generally be covered by your health insurance
- Any injuries to others or damage to their property if the act was intentional

If...	It's covered by...
You slip and fall down your stairs	Health insurance
A houseguest slips and falls down your stairs	Liability insurance
You push someone down your stairs	Not covered

Who can help you with liability insurance?

A duly licensed insurance agent or broker can review your individual situation and determine your liability insurance needs. They can also help you better understand this type of coverage, compare different policies and make changes to existing coverage.

Business liability insurance

If you own a business, you are exposed to additional liability risks. These risks can include, for example, a customer getting injured inside your business, an accident involving a company car or getting sued for malpractice if you are a medical professional. Personal liability insurance will not cover business-related incidents. To protect against these risks, you can consider purchasing business liability insurance. A commercial insurance agent or broker can help you understand your options.

Where you can get liability coverage

Homeowners/Renters insurance — If you have homeowners/renters insurance, you have access to some liability protection. These policies include a minimum amount of liability insurance as part of their standard coverage, which you can also choose to increase. This coverage will help pay for the costs of any personal liability occurring in your home or outside of it, except for car accidents.

Auto insurance — Liability protection for car accidents must be obtained separately through an auto insurance policy. In fact, if you own a car, most states require you to have a minimum amount of liability coverage.

Umbrella insurance — There's a limit to the amount of liability protection that you can purchase through a homeowners/renters or auto insurance policy. For instance, liability from homeowners/renters insurance is typically limited to $500,000 per incident. If you want coverage above these maximums, you'll need to buy umbrella insurance. This type of insurance provides additional coverage above the limits in your homeowners/renters and auto insurance policies.

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How umbrella liability insurance works

You can think of your homeowners/renters and auto insurance as your first layer of protection and your umbrella insurance as your second layer of protection:

1. If you're deemed responsible for an accident, you'll first use the liability coverage in your homeowners/renters or auto insurance policy (depending on the type of accident) to cover the costs.
2. If this coverage is exhausted, umbrella insurance will cover any remaining amount up to the amount of coverage purchased.

The chart below shows an example of how liability coverage is applied across the different types of policies.

Example

After a storm, a tree in Chip's yard falls on his neighbor Alex's garage. The garage needs to be rebuilt, two of Alex's cars are damaged and Alex happened to be in the garage at the time of the incident and her arm was injured. She's a surgeon and is unable to work for two months.



Chip's liability coverage

Home: $300,000

Umbrella: $1 million

Auto insurance won't apply to this event.



Costs

$450,000

Including:

Property damage: $170,000

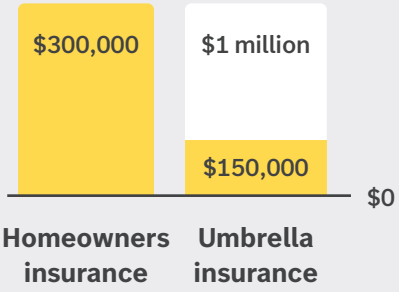
Medical injuries: $30,000

Lost income: $50,000

Pain and suffering: $200,000



Amount covered



Without umbrella insurance, Chip would have to pay $150,000 out of pocket.

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The cost of umbrella insurance

Umbrella liability insurance can be relatively cheap. You might be able to get $1 million in coverage for around $200 – $300 per year and pay less than $100 for every million of additional coverage.[2] However, before selling a policy, insurance companies will require you to have a minimum amount of liability coverage in your homeowners/renters and auto insurance policies. If you're considering umbrella liability and are below these limits, you may also have to pay higher homeowners/renters and auto premiums.

2 Source: CNBC, Forbes, Fortune, NerdWallet, ValuePenguin and WalletHub. These costs are only a guide, and your actual premiums might be higher or lower depending on your exposure to liability (e.g., numbers of members in your household or number of vehicles you own).

When do you need umbrella insurance (and how much)?

We recommend that your total liability coverage be at least the value of your assets that could be at risk during a civil lawsuit (known as your unprotected assets). This means that if your unprotected assets are larger than the maximum amount of liability you can obtain through your homeowners/renters and auto insurance policies, you should consider umbrella insurance. For example, if you have $1.75 million in unprotected assets and your homeowners/renters and auto insurance offer liability up to $500,000, you should consider purchasing at least a $1.25 million umbrella policy. If purchasing an umbrella insurance policy, the minimum amount is usually $1 million, which will protect against most liability judgments.

If you have umbrella insurance, we recommend that you review your policy at least every five years, ideally together with your homeowners/renters and auto insurance to benefit from bundling discounts. You should also review your umbrella insurance whenever you experience a large change in assets (e.g., receive a large inheritance) or liability exposure (e.g., you add a pool to your house or your child starts driving).



What assets are protected in a lawsuit?

Federal and state laws establish that certain assets have legal protection and cannot be seized by creditors in a civil lawsuit. Protected assets typically include retirement accounts and home equity on your primary residence, up to a certain amount. Because the exemptions available to you depend on where you live, you may want to consult a local attorney to understand which of your assets are and aren't protected. [3]

3 Edward Jones, its employees and financial advisors cannot provide legal advice. You should consult your attorney regarding your situation.

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Special client considerations

Individuals with a higher liability risk. If you have a high exposure to liability risk (e.g., you have teenage children, have a pool, practice risky hobbies or are a public figure) and are risk averse, you may still want to consider umbrella insurance even if you don't have substantial assets. You should weigh the benefits of the additional liability protection against its cost.

Individuals with high earning potential. You might also benefit from umbrella insurance if your current assets are low but you expect to earn high wages (e.g., you are studying to be a dentist or airline pilot). This can protect your future income, but similarly, weigh the benefits versus the cost.

High-net-worth individuals. Many insurance companies have limits on the amount of coverage you can buy (for example, some limit coverage to $5 million or $10 million). If you need coverage above these limits, you'll need to work with insurance companies that specialize in high-net-worth individuals. Your financial advisor can work with the Edward Jones Client Consultation Group to provide a referral to companies that offer higher liability limits (which can be as high as $50 million or $100 million).

Life is unpredictable and, despite your best intentions, you might be required to pay damages to others. If you have a lot of assets or are at a high risk of being found liable for damages, you might benefit from the extra liability protection provided by umbrella insurance.



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