

UMBRELLA INSURANCE: HOW TO KNOW IF YOU NEED IT

By Mark Gruber, CFP®, Financial Planning Analyst

You've worked hard to accumulate your wealth. And regardless of your net worth, it makes sense to have the proper kind of insurance to protect your assets – as well as your future income – from the financial fallout that can occur from certain unforeseen events or circumstances.

“But I already have a variety of standard insurance policies with ample riders to protect my assets and my family,” you're thinking. “I have automobile. Homeowners. Renters. All types of life insurance.” If you're a business owner, most likely you also have policies to protect your business assets and employees. But with all your current insurance protection, you may have overlooked one very important and affordable type of policy designed to kick in when your liability coverage on the standard policies you have in place has been depleted: umbrella insurance.

HOW MUCH UMBRELLA COVERAGE DO YOU NEED?

A good rule of thumb is to have at least enough liability insurance to cover your assets. One quick way to calculate the amount of umbrella insurance you need to buy is to add up the value of your property, savings, and investments. Next, look at your existing insurance documents and determine how much liability coverage you have through those policies. Ideally, you should purchase enough umbrella insurance to make up the difference.

Also, it's important to consider your future income in your calculations. If you're likely to earn a lot more money in the future than your current salary, you'll want to protect those assets too.

When it comes to the possibility of potential lawsuits, keep in mind employer-sponsored retirement accounts such as your 401(k) and 403(b) accounts are protected from exposure to civil liability under the federal Employee Retirement Income Security Act of 1974 (ERISA). This same protection also applies to up to \$1 million in assets held in individual retirement accounts (IRAs). In general, only nonqualified assets along with assets in excess of \$1 million in IRAs need to be considered in your calculations. You also should check with your team of professional advisors to help determine how much umbrella insurance coverage you may need depending on state and local laws where you live.¹

WHEN DOES UMBRELLA INSURANCE COVERAGE KICK IN?

Think of umbrella insurance as a safety net for your assets. When an event or circumstance exceeds the limits underwritten in your standard policies, your umbrella coverage is there to pick up the slack by providing additional coverage that's not included in your basic policies. Usually, umbrella coverage is broken down into three main categories – bodily injury liability, property damage liability, and personal liability.¹

WHAT IS UMBRELLA INSURANCE AND HOW DOES IT PROTECT ME?

Umbrella insurance is also known as excess liability or personal liability insurance. It supplements other types of insurance policies (e.g., homeowners, renters, automobile, recreational vehicles, etc.) when the amount of liability coverage on those policies isn't enough to cover the full amount of damages. Households with sizable assets should consider having this coverage in place because it protects individuals against financial ruin from a catastrophic event when you're at fault.

Here are just a few examples of when umbrella insurance kicks in:

- Paying legal fees and damages if you're accused of slander, libel, defamation of character, or other personal attacks
- Covering damages to property other than your own
- Taking care of bills for injuries/death you have caused to other individuals and paying their funeral expenses
- Being sued by individuals who are injured or die while enjoying the hospitality of your home, swimming in your pool, fishing in your pond, or jumping on your trampoline
- Being sued by individuals who are injured by your firearms or attacked by animals you own such as dogs, horses, or livestock
- Participating in sports activities where you are responsible for injuries to others (e.g., hockey, football, hunting, skiing, surfing, car racing, etc.) or from coaching kids' sports
- Covering accidents from young or inexperienced drivers in your family

HOW MUCH DOES UMBRELLA INSURANCE COST?

According to the Insurance Information Institute, the cost of buying \$1 million of personal liability coverage from an umbrella policy is fairly reasonable – usually between \$150 and \$300 per year.² The premiums are low because the probability of any claims being filed against an umbrella policy is relatively small, as no payments are made until the coverage limits from your other applicable policies have been exhausted.

Keep in mind the cost of purchasing umbrella insurance can be reduced even more. In most states, further discounts are available if you purchase coverage from the company that did the underwriting on your homeowners or car insurance. Most insurance companies will require you to have a minimum of \$250,000 of liability on your auto insurance policy and \$300,000 on your homeowners policy before selling you \$1 million or more in umbrella insurance.²

NEXT STEPS

Just remember – the more you have to lose in a lawsuit, the more umbrella insurance may be worth to you. Individuals with more at stake in terms of assets and earnings potential tend to benefit the most from an umbrella policy. It's important to seek the advice of your insurance, legal, and financial advisors to help you determine whether an umbrella policy is appropriate and advantageous for your financial situation. Contact Commerce Trust Company today — we're here to answer all your questions regarding your options and help you make informed decisions that are in your best interest.

¹ Fidelity Viewpoints, “Do you need umbrella insurance?”, <https://www.fidelity.com/viewpoints/wealth-management/do-you-need-umbrella-insurance>, January 27, 2021

² Insurance Information Institute, <https://www.iii.org/article/what-umbrella-liability>

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Mark is a financial planning analyst with Commerce Trust Company. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, Mark develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax, and investment strategies along the way. Mark joined Commerce in 2012. He started in the Commercial Credit Department as an Analyst and then worked in Credit Review as a Senior Analyst. Mark earned his Bachelor of Science in Economics and Master of Business Administration at Kansas State University. Additionally, he has obtained his CERTIFIED FINANCIAL PLANNER™ certification. Mark is active in the community by training new baseball umpires and basketball officials and donates regularly at Community Blood Center.



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