



It's Raining Lawsuits: Do You Need An Umbrella Policy?

by Amy Fontinelle ([Contact Author](#) | [Biography](#))

It's impossible to predict whether you might lose a lawsuit resulting from a car accident or an accident on your property. Nor is it possible to predict the amount that might be awarded to the winning party, an amount that you would be responsible for paying. To protect yourself against the possibility of devastating financial loss from these unforeseen events, you may want to purchase an [umbrella policy](#).

What Is an Umbrella Policy?

An umbrella policy protects your existing personal assets and future personal assets (like wages, your inheritance or that lottery you're planning to win) against the cost of losing a lawsuit over a car accident or an accident on your property. If you were to lose such a lawsuit, you would likely have to pay the winning party for costs such as medical expenses and lost wages, which can quickly become very expensive.

You don't have to be wealthy to need an umbrella policy - even if you don't have any assets, your wages can be garnished. (Having the right kind of insurance is a critical component of any good financial plan. Check out [Introduction To Insurance](#) and [Build A Wall Around Your Assets](#).)

An umbrella policy picks up where your [auto](#) and [homeowners insurance](#) policies leave off. It has a high deductible because the deductible is designed to be met by your other policies. Expect to pay a few hundred dollars a year for this coverage.

What It Covers

An umbrella policy provides excess coverage above and beyond what is provided by your homeowners and auto insurance policies. As an example, let's say your auto insurance pays \$300,000 of medical expenses per accident and your umbrella policy is for \$1 million. If you are sued for \$900,000, your auto insurance would pay \$300,000 of the damages and your umbrella policy would pay the remaining \$600,000. Umbrella policies usually provide at least \$1 million to \$5 million of additional coverage, and it is possible to get more if you have lots of assets to protect. (Learn how to read one of the most important documents you own in [Understand Your Insurance Contract](#).)

What about the legal expenses you'll incur if you're sued? With umbrella policies, legal expenses are covered on top of the policy amount. The policy may also pay you if your appearance at legal proceedings causes you to lose pay from work (for example, if you are an hourly employee or if you don't have any personal or vacation days available). Since the insurance company's money is at risk when you're sued, it'll want to protect that money with its own legal team, possibly a better legal team than you could afford on your own.

In addition to covering you for accidents on your property or car accidents you are found to be at fault for, an umbrella policy can also protect your [dependent](#) children (for example, if your daughter causes a car accident), any accidents caused by you or your dependent children while operating a watercraft, accidents that occur on [rental property](#) you own and personal injury lawsuits arising from slander, libel, defamation of character, false arrest, detention or imprisonment, abuse of process, malicious prosecution, shock/mental anguish and possibly more. Be sure to consult your specific policy for details. (Read more in a [Beginners' Guide To Homeowners Insurance](#).)

What It Doesn't Cover

An umbrella policy is a form of personal insurance, so it won't protect you from lawsuits related to a business you own. This includes babysitting, or "compensated child care" in insurance lingo, by the insured (because that would be considered a business). However, your policy may still cover your children if they babysit part-time on someone else's property. (Learn more in [Will Insurance Keep Your Business Safe?](#) and [Insurance Coverage: A Business Necessity](#).)

Umbrella insurance also does not cover activities like drag racing or any other high-risk, unnecessary use of your vehicle. Also, it may not cover all types of vehicles, such as recreational motor vehicles, truck tractor trailers, farm tractors or trailers, or more generally, vehicles exceeding a certain weight limit, such as 12,000 pounds. The policy won't cover damage to your own car (your auto insurance should provide for that) or damage to your own property (your homeowners insurance should cover it).

If you commit a crime (such as driving under the influence) and are forced to pay restitution, an umbrella policy won't cover it. Likewise, intentional acts, such as sexual harassment, discrimination, intentional bodily injury, intentional property injury and other willful and malicious acts by the insured are not covered. (As the old saying goes, "crime doesn't pay".)

Furthermore, an umbrella policy does not provide you with excess [health insurance](#) coverage. Most health insurance policies have annual and lifetime limits on what they will pay. If you're concerned that those amounts are too low, you will need to purchase more comprehensive health insurance, because an umbrella policy won't help you. (Getting your own policy isn't easy or cheap but in some cases, it's well worth the effort. Read [Buying Private Health Insurance](#) for more information.)

These are just a few examples of things that an umbrella policy generally will not cover. Because there are quite a few exclusions, if you're concerned about being covered for a specific event, ask your insurance agent if an umbrella policy will cover it and, if not, what additional policy you can purchase to protect yourself.

Underlying Insurance Requirements

Because an umbrella policy is designed to be a form of [secondary insurance](#), it will have underlying insurance requirements. This means that you'll have to have a certain amount of auto insurance and homeowners insurance coverage as a condition of being approved for an umbrella policy. The underlying insurance requirements will vary depending on the company you get your umbrella through, but typical coverage includes:

- Auto insurance bodily injury coverage of \$250,000 per person/\$500,000 per accident

- Auto insurance property damage coverage of \$100,000 per accident
- Homeowners insurance personal liability coverage of \$500,000

Additionally, some umbrella insurance providers will require you to have your auto and homeowners insurance with them before they will issue you an umbrella policy. Sometimes having all of your policies with one insurer saves you money, but sometimes it doesn't - switching your homeowners and auto insurance policies to the umbrella provider can potentially make umbrella insurance more expensive than just the umbrella insurance [premium](#) itself. If you don't already have the underlying insurance required by an umbrella policy, this will also effectively make your umbrella policy more expensive. (Every business is susceptible to legal action. Find out how to protect yours in [Cover Your Company With Liability Insurance](#).)

Things That Increase Your Risk of Being Sued

If you always take public transportation and don't own any property, you are much less likely to need an umbrella policy. On the flip side, there are a few things that increase the likelihood of requiring an umbrella insurance policy:

- A long commute
- Driving during rush hour, when drivers are more likely to get into an accident
- Your home has a swimming pool
- You own a dog
- You frequently have guests over (Learn more in [Are You Trying To Get Sued?!?](#))

The Bottom Line

Just because you aren't at high risk of being sued doesn't mean you are at no risk. Even if you are very careful, umbrella insurance can be thought of as bad luck insurance. The safest course of action is to be insured. And remember that as your financial situation changes, you may need to add more coverage in the future. (Some things shouldn't be left to chance. Find out more in [Five Insurance Policies Everyone Should Have](#).)

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