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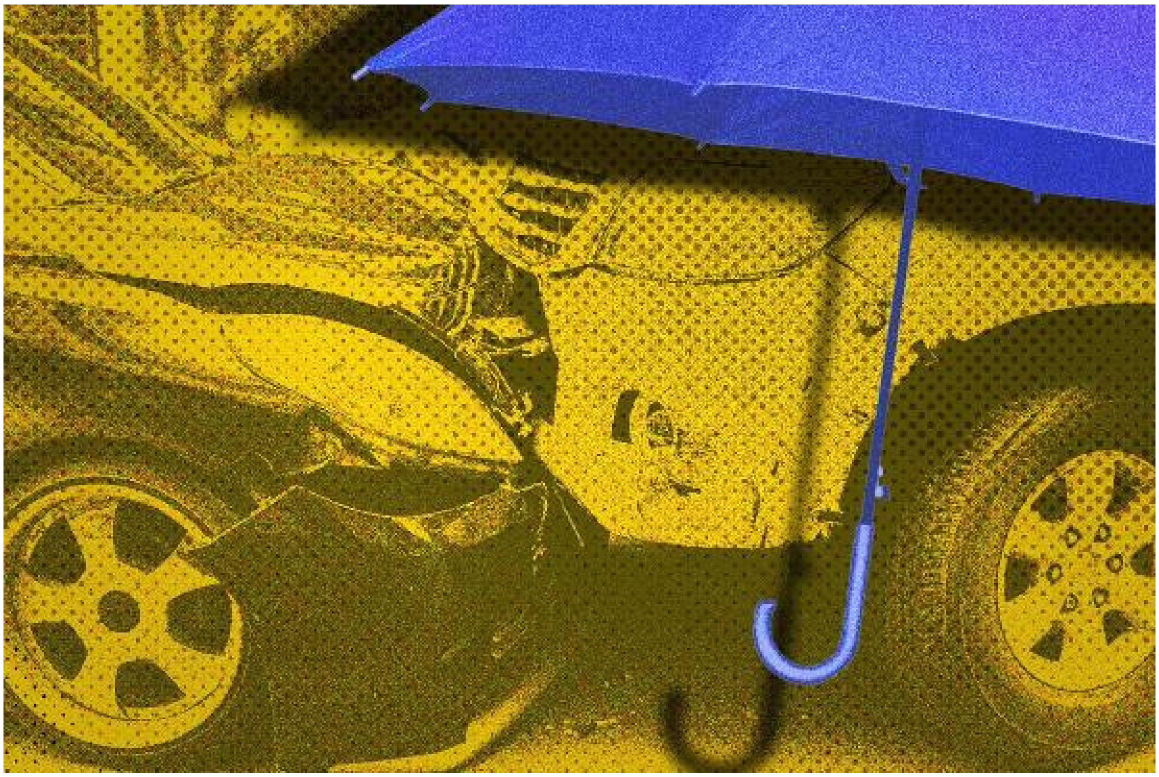
Your Money



Umbrella Liability Insurance in Retirement

By Retirement Daily Guest Contributor | Aug 21, 2019 7:40 AM EDT

By Steven Podnos

One of the benefits of retirement is the usual reduction in some insurance costs. Disability insurance drops off the list for sure, and hopefully most families no longer need significant life insurance (as they have acquired enough capital to see themselves through the retirement years). One type of insurance that continues to be a must, however, is umbrella liability, or UL, coverage.

This insurance adds excess liability coverage on top of your homeowner's, automobile, and other general insurance policies. It is referred to as an umbrella because it sits on top and covers many types of liability that may rain down on you and picks up where other policy limits end, such as occurrences that may or may not be otherwise covered by your regular insurance coverage, including lawsuits for false arrest or slander.

It is inexpensive, usually running $200 to $300 per $1 million of coverage per year. For example, you may carry $250,000 in automobile liability coverage and a $2 million UL policy would cover your liability above $250,000, up to $2 million.

Here is how a good UL policy works: You might have an auto insurance policy that would pay up to $300,000 to someone you injure in a car accident (in your car or another). Even though that sounds like a good sum of money, serious medical costs can run into the millions of dollars. If you have only the auto coverage, you may be subject to a judgment by the injured party and have your assets at risk. If you had a $2 million umbrella policy, the insurance company would pay up to that amount to the injured party in a judgment or settlement.

The insurance company will also be motivated to provide skilled counsel to minimize their costs on your behalf. If you have caused a serious liability, there is even a strategy to instruct the insurance company to settle on your behalf. If they don't try and you have a judgment in excess of your coverage, you might have some leverage to make them pay the excess.

(Side note: Automobile liability is clearly the greatest risk to your savings. Auto accidents are greatest at the extremes of one's driving years, first as a teenager and then again after age 80. And the retired have the most to lose monetarily.)

A good UL carrier will ask you questions about your risk profile. They want to know if you have items such as a pool with a diving board, or certain dog breeds, which can increase the chance you might be sued. My carrier has me update my profile annually. Going through this inquiry is a good idea anyway when considering asset protection for your family; a refusal to cover you should prompt some deep thought about what kind of liability exposure you have.

Most people obtain their UL policies from the insurance companies that provide either their homeowners or auto policies, but this isn't required. Many companies offer stand-alone UL policies. But you do need to adjust your underlying auto and homeowner (and boat and rental property) coverage to fit the coverage limits of the UL policy. The UL carrier will always specify a minimum level of coverage on the other policies. However, sometimes you are buying too much coverage and can reduce it when combined with the UL policy. I have seen some families add significant UL coverage at almost no new net cost annually.

How much UL coverage do you need? Some experts advise that you have enough to cover your assets. Other advice is to cover your expected liabilities. I follow a general rule to have enough to sleep at night. That's different for everyone, but I'd suggest $2 million to $5 million usually works for this. Personally, my family jumped to $5 million in coverage when our teenage children began driving, and I've never dropped to lower limits.

Note that UL will usually not cover your business liability. If you still have an active business in retirement, it should have its own coverage. You can also purchase umbrella business liability coverage that protects you from excess costs and some uncommon threats. UL may or may not cover rental properties, although I have seen most noncommercial property included in various families' policies. If you own rental property, ask your UL carrier to specifically list the properties on your policy.

Not having a good umbrella liability policy is a mistake. If you don't have one, call your auto or homeowner's agent today and get one.

About the author: Steven D. Podnos MD, MBA, CFP, is the principal of Wealth Care, LLC, a fee-only registered investment adviser that now advises 130 families nationwide. He was named as an official CFP Board ambassador in 2014. Steven wrote and published the book "Building and Preserving Your Wealth".