

Do You Need Umbrella Insurance?

Umbrella insurance can protect you from financially devastating events that aren't covered by other policies.



Insurance is supposed to shield you from significant financial losses in the event of a disaster. But sometimes, your insurance doesn't go far enough or cover all of life's misfortunes. For the rest, you may need umbrella insurance.

Umbrella insurance provides additional liability coverage outside the limits of other policies you have, along with certain expenses not typically included in your existing insurance policies. For example, umbrella insurance protects you if a guest in your vacation rental falls and sues you for damages, if you're sued for libel or slander, or if you're involved in a catastrophic car accident that seriously injures another person.

The odds of facing a lawsuit in your lifetime might be higher than you think, and your personal assets are at risk if you end up being sued for more than your existing liability insurance will cover. Here's what you need to know to figure out whether or not you need umbrella insurance.

Who needs umbrella insurance?

According to a survey by the American Bar Association in 2021, about two-thirds of Americans had faced some kind of legal problem in the four years prior to the survey. That statistic included criminal cases, not just civil lawsuits. But, for Americans earning \$100,000 or more per year, the most common legal issues faced were personal injury or property damage lawsuits.

It's hard to estimate how likely you, personally, are to be sued at some point in your life. But there are some factors that can increase your exposure to a situation that could result in a lawsuit.

Peter Piotrowski, chief claims officer at insurance provider Hippo Insurance, says people who own potentially aggressive dogs or high-risk possessions, such as a swimming pool, should consider adding an umbrella policy.

He also recommends purchasing umbrella insurance if you have teenage drivers, since they're more likely to get involved in an accident that exceeds coverage provided by your existing car insurance.

Additionally, umbrella insurance is a good idea if you have a high net worth — say, \$500,000 or more — because individuals with a lot of assets are more likely to get sued, he says.

Here are a list of situations where it's worth exploring umbrella insurance:

- You have a pool, dog or trampoline at home and regularly invite guests over.
- You have a teenage driver on your car insurance.
- You host often at your home. Even if you trust your friends and family not to sue you over a slip and fall, those "friends of a friend" might not be so trustworthy.

- You're a landlord or own a vacation rental property.
- You have a second home.
- You hire house cleaners, landscapers or other domestic services regularly.
- You coach youth's sports and the league's liability coverage is limited.
- You're on a nonprofit board and the organization's liability limits are low.

Who does not need umbrella insurance?

While umbrella insurance can benefit almost anyone, it might be something you can skip in certain circumstances. That's because standard home and car insurance policies already provide some liability coverage.

So, how do you know if the liability coverage in your existing policies is enough for you? The biggest sign is that the coverage limit is higher than your current net worth (or that you can raise the coverage above your net worth).

Beyond that, review the list of scenarios and situations above that increase your risk of being sued. If none of those apply to you, that's another sign you may be able to skip umbrella insurance.

However, even if you might not need umbrella insurance right now, your situation might change in the future. Whether that's your net worth increasing as you near retirement or moving into a home with a pool, you'll need reevaluate your insurance needs periodically.

Cost of umbrella insurance

Umbrella policies are usually sold in increments of \$1 million of coverage, up to \$5 million. Premiums range from \$150 to \$1,000 per year depending on the amount of coverage, Sangameshwar says.

To figure out how much coverage you need, start by estimating how much you additional liability coverage you might need. Add up the value of all your assets, including the amount of equity in your home and the value of your investment and retirement accounts. Kiplinger provides a calculator you can use to estimate the amount of coverage you need.

As is the case with other types of insurance, rising labor costs and an increase in catastrophic weather events have led insurers to raise umbrella insurance premiums. The number of umbrella insurance claims more than doubled between 2010 and 2020, and the size of payouts increased by 67%, according to Safeco Insurance, a division of Liberty Mutual.

How to get umbrella insurance coverage

To qualify for an umbrella insurance policy, you must already have homeowners and auto coverage. In addition, you'll usually need to have at least \$250,000 of liability coverage on your car insurance policy and \$300,000 of liability coverage on your homeowners policy, according to the Insurance Information Institute.

To help offset the cost of the umbrella insurance policy, make sure to lower your liability coverage on your other policies to the minimum required to qualify for the umbrella insurance you want.

You may be able to get a discount on your policy if you bundle it with your car or home insurance, depending on the amount of umbrella insurance you purchase and your state of residence. If you're shopping around for a stand-alone umbrella policy with a new insurer, you can comparison shop on websites such as ValuePenguin and The Zebra.

The application process for umbrella insurance is similar to that for other types of coverage. You'll need to submit info about your income, assets and existing insurance policy limits before gaining approval.

The amount of insurance you need will vary depending on your location, age, credit history and other factors, says Divya Sangameshwar, insurance expert with ValuePenguin, a consumer website that provides insurance research and analysis.

Where you buy it will depend on when you think you'll need the most coverage. If you're getting it because you host a lot of gatherings at your home or rent out your vacation home, start by getting a quote from your existing home insurance provider.

On the other hand, if you're getting umbrella insurance because you travel a lot and are more worried about, say, the risk of being sued after a car accident, look into bundling the extra coverage with your car insurance instead.

NYSUT NOTE: Do you own significant assets, a rental property, or other potential liability risks? Umbrella insurance can offer peace of mind and an extra layer of protection. Consider NYSUT Member Benefits Corporation-endorsed [Farmer's Insurance](#) for all your homeowner's insurance needs, including umbrella insurance.

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