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Umbrella Coverage for Preventing Your Ruin

By [JOSEPH B. TREASTER](#)

HERE'S the nightmare: Your car skids. You crash into a Mercedes with a highly paid business executive at the wheel. He's hurt so badly he cannot return to work. A jury awards him millions of dollars and you have to pay it.

You're wiped out financially. The court takes your savings, goes after your home and, for decades, requires you to give up a part of your salary.

For some people such a nightmare could never happen. They have an extra insurance policy, known as umbrella or excess liability coverage, which takes care of their liability for the lawsuits and medical bills of the auto accident victim — or of the teenage guest who dives into the shallow end of the swimming pool or the deliveryman who trips on the front steps.

But many people with major assets either do not buy the extra coverage or do not buy enough. Some do not know about umbrella coverage, which also pays for lawyers and other legal expenses. Others have heard of it but do not understand it. Still others decide that they do not want to pay for it, even though the cost is usually a fraction of the price of a typical package of home and auto insurance.

"This is a neglected area," said Mark Schussel, a spokesman for the Chubb Group of Insurance Companies, which caters to affluent home and auto owners. "Some people have some coverage. But they haven't changed the amount in years. Some people have a \$1 million figure in their heads, and it just doesn't make sense anymore."

Charlotte Edmonston has been an insurance agent for more than 30 years. She works with wealthy clients in Baton Rouge, La., and oversees agents in 29 cities nationwide for the personal insurance unit of Arthur J. Gallagher & Company, a big insurance broker with headquarters near Chicago.

Her first question for new customers is whether they have umbrella coverage. Most of them already do. But "90 percent of them are underinsured," she said. "Usually they were sold too little from the get-go, and their assets have grown and they never revisited the issue."

For Jeff Cox, an owner of the third-generation insurance agency of Lloyd Bedford Cox in Bedford Hills, N.Y., and Greenwich, Conn., "the discussion about umbrella coverage usually starts at \$5 million." But he can provide up to \$100 million in coverage.

Umbrella and excess coverage are extensions of home and auto insurance. Banks make people buy home insurance to get mortgages, and states require drivers to buy auto insurance. But no one mandates buying a policy that could turn out to be the most important part of your insurance package.

As a result, only 15 percent to 20 percent of clients at the Wall Street insurance agency of Campbell Solberg Associates buy umbrella coverage, said Rick Wiltshire, an executive at the firm. Instead, they stick with the \$100,000, \$300,000 or, in some cases, \$500,000 in liability coverage that comes standard with the most widely sold home-insurance policies.

“You never think it’s going to happen to you,” said Rick Blank, an agent in White Plains, N.Y., with the Preferred Services Group. “Personal injury lawyers are making money by suing people. If you don’t have enough insurance you become personally liable.”

Some insurance companies that cater to the wealthy say that as many as half of their customers buy umbrella coverage. But State Farm, the biggest home insurer in the country, with a clientele of mainly middle- and lower-income homeowners, says about 12 percent of its policyholders buy umbrella coverage.

Buying such coverage usually does not greatly increase the overall cost of home and auto insurance. For example, in Louisiana, insurance on a \$1 million home well away from the coast might run \$4,500 a year, Ms. Edmonston, the Baton Rouge agent, said. Two cars could raise the cost of the package to \$7,500. And \$5 million in umbrella coverage might cost about \$600 more, or about 8 percent of the total. In New York, agents say, \$5 million in coverage might cost about the same.

Ms. Edmonston consolidated home and auto coverage for Ann Brown Singleton, a stockbroker and financial adviser in Baton Rouge, after her husband died and she married Andrew Jackson Singleton, a sales manager for several national companies. Together, they owned several houses, three vintage cars, jewelry and art.

“I had a \$1 million umbrella, which I thought would certainly satisfy everything,” Ms. Singleton said. “When Charlotte Edmonston got through with her analysis she said, ‘Whoa, you need a \$5 million umbrella.’ Whether lawsuits are valid or not, you wind up having to defend yourself against them, and you never know how high the judgment is going to go. I find that frightening.”

Philip J. Hirschkop, a lawyer just outside Washington, said he had a client without an umbrella policy who had only the \$100,000 coverage that came standard with his home and auto insurance policy. He was sued for much more over an auto accident and was in danger of “losing everything he owns.”

Around the country, at companies dealing with rich clients, the first million in coverage is usually the most expensive, at perhaps \$150 to \$300 annually, said Jeanne M. Salvatore, a specialist in home insurance at the Insurance Information Institute. Each additional million in coverage, she said, could cost around \$100 to \$125 annually. The rates per million decline as coverage increases. But at \$10 million in coverage, the rate jumps because few customers buy that much, meaning insurers can spread their risk over only a relatively small group of customers.

The situation is often the reverse for the many insurers who specialize in middle- and lower-income clients. Often their rates shoot up after the first million in umbrella coverage because they have only a small group of buyers of umbrella policies larger than \$1 million. A smaller pool of customers creates more risk per dollar of premium for an insurer, so the insurer charges more for the coverage.

One homeowner said that for a \$3 million umbrella policy from a middle-income insurer, the second and

third million in coverage cost him 3.5 times the rate for the first million of coverage.

Thankfully, accidents with elephantine lawsuits are not everyday events. When they do occur, however, the results can be devastating.

One of Mr. Cox's clients crashed into the rear of a car on a slick highway. A woman and a child were critically injured. After two years of litigation, his client settled the lawsuit for more than \$5 million. The client had \$15 million in umbrella coverage. The policy paid for the settlement and all legal costs. "Without the umbrella," Mr. Cox said, "they would have been completely wiped out."

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