

Umbrella Coverage and How to File a Claim

When you are deemed at fault for an accident your liability coverage can protect you. But what if your liability coverage is not enough to cover the cost of damages or litigation? This is where umbrella insurance comes to the fore.

If costs associated with an accident or injury exceed your normal liability coverage, the injured party may opt to file an umbrella insurance claim to collect additional funds.

What's umbrella coverage?

Your auto insurance, homeowner's coverage or renter's insurance all have standard liability caps built into them. You may even have a liability policy for your motorcycle, boat or RV.

An umbrella policy serves as a backstop. And like an open umbrella, it spreads out a second layer of protection for all of your liability policies.

Umbrella insurance increases the liability limits on your home, auto, boat or RV insurance, but also provides a much broader form of coverage.

Umbrella insurance claims

If you are responsible for severe injury or property damage to another person and you are sued, the umbrella insurance claim will be filed against you, the policyholder. Only after your other liability limits have been exhausted will your umbrella policy begin to pay for the damage or injury you caused.

Covered claims

Umbrella insurance can cover large claims if you cause bodily injury or property damage to someone else. There are multiple ways you can be held liable and be in a position to pay damages, such as:

- You cause a serious car crash. Multiple people have injuries and the property damage is extensive. You are sued for medical bills and vehicle repair.
- You have a party at your house and someone is injured. They are hospitalized and out of work for a month or more.
- A moment of inattention as you adjust a radio station while driving results in an accident with a cargo van carrying \$500,000 worth of electrical equipment, all of which is destroyed in the crash.

- Your teenager is driving a friend's car and crashes, injuring the other passengers.
- You are accused of verbally assaulting someone and they sue for emotional duress.

Assets at risk

Without an umbrella policy, if you are faced with a claim that exceeds your policy limits, you can be sued, putting all of the following at risk:

- Your personal property
- Your real estate
- Your investments
- Your retirement accounts
- Your liquid assets
- Your future income.

How it works

Let's say that your auto insurance and homeowner's policies both have liability coverage in the amount of \$300,000, and both policies have a deductible of \$1,000.

You also have an umbrella policy for \$1 million with a deductible of \$300,000.

You cause a serious car accident and get sued for \$1 million. You pay your auto policy deductible of \$1,000 and your auto liability pays \$299,000.

After that, since you have met the \$300,000 deductible for your umbrella policy, it pays the remaining balance of \$700,000.

The key here is to make sure there isn't a significant gap between your liability coverage amounts and your umbrella policy deductible, as that money will come out of your pocket.

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