

## **The Wealth Trap: Underinsuring Liability, Over-insuring Assets**

If you are accumulating wealth quickly and live the comfortable life with a large house, luxury car and other expensive assets, you've no doubt already insured all of those belongings.

But while most high-net-worth individuals have their possessions properly covered, they often overlook their largest risk: liability. In fact, they often over-insure against minor threats and underinsure for major ones.

Many people will carry low minimums on their auto and homeowner's policies, which leaves them exposed to any liability lawsuits that may surface. If the maximum payout on your homeowner's or car insurance is less than the attachment point of your umbrella policy, you could be left having to cover the gap between the two.

Look at it this way: If you wreck your Porsche it won't imperil you financially. But if you also maim or kill someone in the process of wrecking the car, your wealth could be put in jeopardy without the proper protection.

That's why it's of the utmost importance that you carry the proper liability coverage limits on your auto and homeowner's policies, so that you don't have a gap that can leave your personal assets and funds exposed.

Further, if you are a public figure or sit on any boards of directors or do charity work, you may want to consider increasing your limits and supplementing your coverage with an umbrella insurance policy to insure against any lawsuits stemming from decisions you may make in those capacities.

### *Scenarios and repercussions*

#### **Umbrella shortfall**

You're involved in a car accident that leaves the occupant of the other car in serious condition, and she will need extensive operations and likely years of physical therapy.

You've insured your car with a liability limit of \$300,000 and you have an umbrella policy with a \$1 million limit.

That umbrella limit is not nearly enough to cover the bills for this injured individual, whose care costs will likely surpass \$3 million easily in the next four years.

That would leave you \$2 million out of pocket.

## **Board liability**

You sit on the board of a local non-profit and volunteer your time on the board without remuneration.

A former vendor sues the entire board for breach of contract after the board had voted to terminate their contract. The matter is brought to trial and a judge orders that all board members personally pay \$100,000 each for their actions.

If you don't have a personal umbrella policy, you'd be on the hook and out of pocket for the entire amount.

## **Party foul**

You have a Super Bowl party at your house and about 20 guests, one of whom slips on some spilled wine on your deck and throws out his back and can't work for three months.

He sues you for negligence and the homeowner's insurer negotiates a settlement of \$250,000. Your policy has a \$100,000 liability limit, but your umbrella policy doesn't kick in until \$300,000. That leaves you paying \$150,000 out of pocket.

## **The takeaway**

Unfortunately, if you have money, you might as well be walking around with a target on your back. In our litigious society one misstep or mistake can result in an expensive lawsuit and, if it goes to trial, the costs escalate tremendously and your fate rests in the hands of a jury or judge.

Talk to us about a policy that would be right for you. Excess liability policies for high net-worth individuals will often include the costs of unlimited legal defense and legal counsel.

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