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# The Case for Personal Umbrella Liability Insurance

Gary Pasternack of Bessemer Trust outlines the benefits of personal umbrella liability insurance coverage for UHNW families

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When sitting down with clients to discuss their wealth management plan, developing strategies to grow their assets are often top of mind. Less palatable, but of utmost importance, are the “what-if” scenarios that could threaten financial security: a car crash resulting in loss of life or significant injuries, a freak accident at a family reunion, or a child cyberbullying a schoolmate that results in reputational harm. As infrequent as they may be, these unexpected events can have a lasting financial impact.

Standard insurance policies — such as automobile, homeowners, and watercraft — are certainly important defenses in a comprehensive wealth management plan. But they don’t complete the protection puzzle. For many high-net-worth families and individuals, these policies’ coverage limits rarely exceed \$500,000, creating a need for additional coverage to cushion against potential catastrophes exceeding this sum. In the case of a lawsuit, a lapse in coverage could have significant financial implications for an individual and his or her family, including asset liquidation and garnished income.



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## **Policy Breakdown**

Financial protection, and the peace of mind that goes with it, are surprisingly obtainable. Personal umbrella liability insurance financially protects against major claims and lawsuits, above the limits of primary policies. In short, personal umbrella liability insurance sits on top of existing policies and pays out when the limits on the initial policies are reached.

The coverage provided by umbrella liability insurance is typically two-fold and includes 1) claims related to bodily injuries, as well as personal injury (including libel slander and defamation and 2) property damage caused to a third party for which the policyholder is determined to be legally responsible. Since an umbrella policy usually mirrors the primary policy, it's important not to take policy options for granted. A coverage gap in the underlying primary policy could create coverage gaps in the umbrella policy, thus creating financial exposure.

Far-reaching, personal umbrella liability policies are not all-encompassing. Exclusions include aircraft, larger watercraft (unless approved by the insurer), intentional acts and business pursuits.

Beyond a personal umbrella liability policy, there are additional specialized coverage options that may be appropriate to consider, including uninsured/under-insured motorist coverage, employment practices liability insurance, not-for profit-directors (D&O) liability insurance and family trustee liability insurance.

## **The Logistical Breakdown**

One wise rule of thumb is to consider taking a personal umbrella liability policy with a coverage amount that is, at a minimum, equal to you or your client's net worth (up to \$20 million dollars). For the purposes of determining the financial limits in a personal umbrella liability policy, include net worth assets such as savings, stocks, bonds, properties, non-qualified retirement accounts, revocable trusts, fine art and other possessions. Assets protected from creditors — including irrevocable trusts, qualified retirement accounts and residences guarded by homestead laws— are not included in this evaluation.

One common inquiry from clients is where they may be able to purchase large amounts of umbrella liability insurance. Yes, some mass-market insurance companies will offer coverage to a maximum of \$10 million, but most policies are capped at \$5 million. Fortunately, there are a select group of specialized insurance companies that cater to the high-net-worth market. These companies can offer coverage as high as \$100 million dollars.



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It is also possible to obtain coverage through a “layered program” – i.e. building coverage through a variety of smaller policies. Despite this opportunity, it’s advantageous to work with a single company, from both a legal and administrative perspective.

Many are surprised about the affordability of umbrella liability insurance premiums. While a confluence of factors – including number of homes, cars, boats, existing coverage, etc. – apply, roughly speaking the annual cost per million dollars of coverage averages from \$100 to \$500. Large families (ten members or more) interested in coverage, however, can leverage their purchasing power and dramatically lower premium costs by obtaining a group umbrella liability policy.

## **Preparing for the Unexpected**

Unexpected hardships can be emotionally draining, but with the proper insurance protections in place, they don’t need to cause financial strain as well. For a relatively low cost, high-net-worth individuals can add an extra layer of security to their wealth plan, and remain protected when their standard policy falls short. An umbrella liability policy not only minimizes financial exposure, but offers the ultimate protection: peace of mind.