



Oppenheimer & Co. Inc.

Spencer Nurse
Managing Director - Investments
500 108th Ave. NE
Suite 2100
Bellevue, WA 98004
425-709-0540
800-531-3110
spencer.nurse@opco.com
<https://www.oppenheimer.com/spencernurse/>



Umbrella Liability Insurance

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When your local weather forecaster tells you that it's going to rain, what do you do? That's easy--you reach for your umbrella. So why not purchase an umbrella that can protect you in stormy financial weather? Umbrella liability insurance (ULI) can do just that. By providing liability protection above and beyond the basic coverage that homeowners/renters and auto insurance policies offer, ULI can protect you against the catastrophic losses that can occur if you are sued.

Although ULI can be purchased as a separate policy, your insurer will require that you have basic liability coverage (i.e., homeowners/renters insurance, auto insurance, or both) before you can purchase an umbrella liability policy. ULI is often referred to as excess coverage. If you are found to be legally responsible for injuring someone or damaging someone's property, the umbrella policy will either pay for the part of the claim in excess of the limits of your basic liability policy, or pay for certain losses that are not covered.

Why now? It's not even raining

These days, it's not unusual to hear of \$2 million, \$10 million, and even \$20 million court judgments against individuals. If someone is injured in your home, or if you cause a serious auto accident, you could have to pay such a judgment. If you don't have an umbrella liability policy at the time of the accident, anything above the limits of your homeowners/renters or auto insurance policy will have to come out of your pocket.

Here's an example of how ULI works to protect you. Say you have an auto insurance policy with a liability limit of \$100,000 per accident. You also have a \$1 million umbrella liability policy. You're later found responsible for a serious automobile accident, and the court finds you liable for \$700,000 in damages. In this case, your auto insurance would pay the first \$100,000 of the judgment, which would satisfy the deductible under your umbrella policy. Your umbrella policy would then cover the portion of the judgment not covered by your auto insurance (\$600,000).

You should also be aware that certain types of liability claims (e.g., libel and slander) are not covered under basic homeowners, auto, or other types of insurance policies. An endorsement can be added to these policies to provide some protection against these types of personal injury claims. Or, you can purchase ULI, which does cover these claims.

What's covered?

A typical umbrella liability policy provides the following protection, up to the coverage limits specified in the policy:

- Protection for claims of bodily injuries or property damage caused by you, members of your household, or hazards on your property, for which you are found legally liable

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- Personal liability coverage for incidents that occur on or off your property
 - Additional protection above your basic auto policy for auto-related liabilities
 - Protection against non-business-related personal injury claims, such as slander, libel, wrongful eviction, and false arrest
 - Legal defense costs for a covered loss, including lawyers' fees and associated court costs

What's not covered?

Umbrella liability insurance typically provides extremely broad coverage. Furthermore, if something is not expressly excluded from coverage, it is covered. Exclusions vary from one insurer to another and from one policy to another, but the following are some items typically excluded from coverage:

- Intentional damage caused by you or a member of your family or household
- Damages arising out of business or professional pursuits
- Liability that you accept under the terms of a contract or agreement
- Liability related to the ownership, maintenance, and use of aircraft, nontraditional watercraft (e.g., jet skis, air boats), and most recreational vehicles
- Damage to property owned, used, or maintained by you (the insured)
- Damage covered under a workers' compensation policy
- Liability arising as a result of war or insurrection

How big of an umbrella are we talking about?

Determining how much liability coverage you need is not an exact science. You might think that you need only enough liability insurance to protect your assets, but a large judgment against you could easily wipe out your assets and put your future earnings in jeopardy. That's why you should also consider factors such as how often you have guests in your home, whether you operate a home-based business, how much you drive, whether you have teenage drivers in your home, and whether your lifestyle gives the impression that you have "deep pockets."

Coverage limits vary, but a typical policy will provide liability coverage worth \$1 million to \$10 million. Of course, as your coverage limit increases, the premium will also increase. You need to decide both how much insurance you need and how much insurance you can afford. You'll want to have enough protection, but not too much. Look at it this way: Have you ever seen a five-year-old child walking under a big golf umbrella or a 300 lb. football player using a pocket-sized umbrella? One has too much protection and the other not enough. Your insurance agent can help you determine how much coverage you need.

Where can I buy an umbrella liability policy?

Almost any insurer who writes auto and home insurance policies will also sell umbrella liability policies. In fact, you may be eligible for a multipolicy discount if you purchase an umbrella policy from your current insurer. Of course, it's important to shop around and make sure that you're getting the right coverage for your needs and the most coverage for your money. If you want to do some research on your own, try surfing the Internet, where you can get price quotes and answers to your questions in an instant.

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