



Brethren Mutual Aid Agency Inc.,

An Overview of...

... Umbrella Insurance

Umbrella insurance coverage protects people above and beyond their standard insurance coverage. Many people take out home and auto insurance policies without considering the possibility of lawsuits associated with incidents in these areas. These "self-insured" may not have a high risk of getting involved in an expensive settlement, but those who regularly entertain guests in the home or travel by car in wealthy neighborhoods should consider the peace of mind an umbrella policy offers against massive monetary claims..

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UMBRELLA INSURANCE EXPLAINED

Umbrella insurance coverage gets its name from the way it sits "on top" of other insurance coverages such as homeowner or auto insurance policies. The umbrella serves as an extension to the coverage amounts granted by those policies in case of a serious escalation in the amount of money owed by the policy holder. A lawsuit might require the holder to come up with millions of dollars not covered by these policies alone, making the umbrella a valuable guard against financial ruin.

Function

Once a settlement maxes out the deductible on a home or auto insurance policy, the umbrella coverage becomes active for as much of the remaining amount as the policy will allow. This type of policy protects holders against legal claims and monetary settlements from serious incidents such as an injury that occurs on the premises, auto accidents or damage to someone's car that occurs on the holder's property.

Amounts

While umbrella coverage has a reputation as a "rich person's policy," it actually offers a handsome amount of coverage at a reasonable price. A typical \$1 million umbrella policy may cost the holder \$200 to \$300 annually in premiums. The holder may choose to purchase a policy with anywhere from \$1 million to over \$5 million in coverage, depending on the perceived risk of future lawsuits.

Considerations

People must evaluate their lifestyle risk factors when deciding whether or not to take out an umbrella policy. Residents in a high-income neighborhood, for instance, may find themselves more apt to face a pricey settlement in the event of an auto accident in their community. Frequent travelers also put themselves at elevated risk simply because they spend more time in their cars. Homeowners who get many visitors to the house, either for entertainment or business purposes, may need to cover themselves in case of an injury or death on the premises.

Example

A person might take out a \$1 million umbrella policy as extra coverage on top of his home insurance or auto insurance policies, each of which offers \$300,000 in coverage for a \$1,000 deductible. If a plaintiff files a lawsuit against the holder for \$1 million in connection with a car accident, the auto insurance policy will pay \$299,000 after the holder pays the \$1,000 deductible. The umbrella coverage then immediately provides the remaining \$700,000, fulfilling the lawsuit while saving the holder from financial disaster.

