

Should renters get an umbrella policy?

by Robert DiGiacomo at Bankrate.com



Renters may think that because they don't own their homes they don't need umbrella liability insurance, which provides coverage on top of other policies.

In most cases, they would be wrong. Umbrella coverage, regardless of whether you're a homeowner, can shield you from potential financial ruin.

Such policies offer a minimum of \$1 million of additional liability protection and cost just a few hundred dollars a year, says Frank N. Darras, an

insurance attorney and founding partner of DarrasLaw, a law firm based in Ontario, California.

"Liability insurance is inexpensive and a must-have, whether you're coming out of college, transitioning out of foreclosure or a senior who is starting to rent because you have sold your home or lost your home," Darras says.

Opening the umbrella

Renters must have property insurance with liability protection to cover their leased apartment or home before adding umbrella liability coverage.

Getting a renter's policy is a first hurdle for many to overcome, since only 1 in 5 people who rent has one, according to Bill Suneson, co-founder and president of Next Generation Insurance Group.

Basic rental insurance policies typically include \$100,000 in liability protections, while the starting point for an umbrella policy is \$1 million of coverage. The latter kicks in when you have maxed out the liability on policies for your rental and your auto, if you own a car.

"An umbrella policy is excess liability protection -- it sits above a renters or auto policy," Suneson says.

Deciding whether to get an umbrella when you're renting is a matter of adding up your "exposures," says Kevin Noles, a product manager at USAA.

"What are you involved in?" Noles says. "Are you a hunter? Do you golf? Even though you're renting, you may have a swimming pool. The more exposures you have, the more the likelihood of something catastrophic happening."

Even the common act of owning a dog could increase your liability as a renter.

"Dog mauling cases quickly get north of typical liability insurance," Darras says. "You absolutely want an umbrella on top of your renters insurance."

The amount of protection to get is a personal decision, taking into account your current assets and potential net worth, but you should always price higher coverage than you think you can afford, says Claude Lilly, dean of the College of Business and Behavioral Science at Clemson University.

The cost of the first \$1 million in coverage might run about \$300 per year, but rates drop for the next \$1 million in coverage, which might cost an additional \$100 per year, he says.

"It's a matrix of what you can afford and what your exposure is," Lilly says.

Future earnings also are a factor. If you are found liable for an accident, your wages can be garnished to pay a judgment.

"If you've got a good income stream in the future, when you consider the exposure against the cost, it's really prudent to get it," Lilly says.

Low Cost, big benefits

Given the advantages of umbrella coverage, which include shielding you from claims of slander, libel and invasion of privacy, Darras believes it more than justifies the cost, even for renters on a budget.

For those who don't know if they can handle an extra bill, Darras suggests adjusting your other insurance coverage levels and buying the umbrella policy from the same company to get loyalty and multipolicy discounts.

"People will say, 'How can I afford another policy?' Raise the deductible on your auto from \$250 to \$1,000, and you capture the premium for \$1 million worth of umbrella."

Reading the fine print

Even though the idea behind an umbrella is that it plugs any leaks in your other coverage, there can be exceptions. It's typical for umbrella to cover legal costs, for example, but the scope of representation varies among policies.

"People think all policies are standard," Lilly says. "Every insurance (product) has some exceptions, and you need to compare those."

Another key issue is to make sure your renters and auto policies are in sync with your liability coverage.

"The last thing I want is a rental policy that covers me to \$100,000 worth of liability, and my umbrella says you have to have \$300,000 worth of liability," Darras says. "You have to make sure when you stack the policies you've met the minimum liability requirements."

Not for college students?

For college students and even some recent graduates, the liability coverage in their renters policies may be sufficient, or they may be covered under their parents' insurance, according to Suneson. Once young people who are renting start to earn a real salary, buy a car or accrue assets, the umbrella coverage is money well spent.

"For a student, if they're just going away for college and concerned about personal liability, they should make sure to buy a renters policy that includes liability coverage -- many don't include it," he says. "Many students don't have a car, so an umbrella policy may not make sense."

Finally, don't let the \$1 million threshold lull you into thinking umbrella coverage doesn't apply just because you're a renter.

"People are getting educated that \$1 million in coverage doesn't mean it's an expensive policy," Noles says. "You don't have to be a millionaire to be sued like one."

If you need more information or have any questions about renters insurance coverage please contact any one of our offices.