



Evaluating and Comparing Personal Liability Insurance Policies

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What is it?

Personal liability coverage is an important way to protect your assets. When you purchase a homeowners insurance policy or an automobile insurance policy, you are purchasing some basic liability coverage as part of that package. If you want additional liability coverage, you may choose to purchase a personal umbrella liability policy. Before buying any liability coverage, however, you should evaluate and compare the various products offered. Because your personal and financial obligations change, you will occasionally want to review your personal liability coverage to ensure that it adequately meets your needs. If it doesn't, you may need to increase or replace your existing liability coverage.

Determining your need for personal liability insurance

How much personal liability coverage do you need?

You probably need more liability coverage than you think you do, even if you have few assets to protect. Lawsuits and claims are being filed more frequently than in the past, and the cost of defending yourself may be high. If you don't have any liability insurance, you will likely have to pay the entire cost out of pocket. If you do have liability insurance, your insurance company might settle out of court because in a major suit, your insurer's legal fees can exceed your policy's liability limit. In addition, juries frequently award damages that exceed the actual monetary amount of damage done. They award money for pain and suffering, mental anguish and punitive damages. Even if you have liability insurance, you may find yourself owing money if court-ordered damages against you exceed the liability limits of your policy. If you don't have the money to pay damages now, your future earnings and assets may be subject to liens and/or garnishment.

Because there's no optimum amount that's right for everyone, how much personal liability coverage you need depends partly on your tolerance for risk. Can you afford to pay the cost of a claim out of pocket, or would even a small claim threaten your finances? If you already have liability coverage, take a look at your current policy. Determine whether your liability limits are high enough, or if there are any gaps in coverage you'd like to fill.

Example(s): Jane decided to teach English in Korea and wanted to ship her car to Seoul. However, when she reviewed her automobile policy, she discovered that her policy contained a provision excluding coverage while her car was being transported and that, furthermore, it wouldn't cover her for liability claims when she was in Korea. This was a coverage gap that Jane needed to fill.

Tip: The amount of liability coverage you carry may not be completely up to you, however. First, the state in which you live may require that you purchase automobile insurance coverage with certain minimal liability limits. Second, the financial institution that holds the lien on your car or house may also require that you purchase automobile or homeowners insurance with certain liability limits. Your insurance company or broker can recommend the liability limits you should carry to adequately protect yourself and your property.

Evaluate the coverage you already have

Before buying new or additional liability coverage, review the liability coverage you already have. It's a good idea to sit down with your insurance agent or financial advisor to review any of your policies that might include liability coverage, such as a homeowners policy, an automobile policy and a personal umbrella liability policy. Talk about your current and future insurance needs. You may be able to increase your liability coverage or make limited changes to an existing policy if you find that the coverage you have is inadequate. On the other hand, you may find that you need to buy a new policy if you're unhappy with your present one or if you want to buy a new type of coverage, such as a personal umbrella liability policy.

Events that trigger a review of your liability coverage

The following is a list of some common events that should trigger a review of your personal liability coverage:

- Your family status changes – Because a liability policy may cover not only you, but also family members who live with you, it's time to review your liability coverage when you get married, have children, get divorced, are widowed or become an empty nester. You may become more concerned about protecting your assets after you get married, or you may want more liability coverage when your son gets his driver's license.
- Your property increases in value – How much homeowners insurance you can buy is tied to how much your home is worth. As your property increases in value, you will need to consider not only how much it would cost to rebuild your home if it was damaged, but also whether you should increase your liability coverage under your homeowners policy. It's a good idea to review your homeowners coverage annually, particularly if property values in your area are increasing every year.
- Your net worth increases – As your net worth increases, you will have more assets to protect, and you may become increasingly concerned about protecting those assets. It's unfortunate that wealthy people are sometimes targeted by lawsuits.
- Your risk of being sued increases – Anyone can be sued, but your risk of being sued increases if you become wealthy (particularly if you are well known), if you are in the public eye, or if your actions potentially cause harm to others.
- Your housing needs change – If you move into a new house, you will need to purchase liability coverage, usually as part of a homeowners package. If you move into an apartment, you should consider purchasing a renter's policy, even if you have few assets, because of the liability coverage it offers.
- You buy a new car – When you buy a new car, you'll need to buy an automobile policy to insure it. Take a few minutes to review your liability coverage under that policy, and make sure that your liability limits are adequate.

Comparing liability insurance policies

Comparing policy terms and conditions

Your main objective when buying any type of insurance is to buy coverage that will insure you adequately. For most people, price is also a factor. Although automobile insurance policies and homeowners policies are standardized to a certain extent, it's still important to compare policies in terms of price, coverage, exclusions, and the reputation of the insurance company. Umbrella liability policies, which are not standardized, should be scrutinized even more carefully because they can vary widely.

When comparing liability policies or coverages, here are some points to consider:

- Make sure you are comparing similar policies – You can't fairly weigh one policy against another unless you are comparing similar policies. Before you compare liability policies or coverages, decide what deductible you would like to have (usually the higher the deductible, the lower the premium) and what limit of liability you would like to carry. In addition, determine whether the policies you are comparing contain similar coverage provisions and exclusions.
- Weigh the policy cost against coverage and service provided – When buying liability protection, your goal should be to buy the best quality coverage offered that will adequately protect you at a price you can afford. First, review each policy carefully to determine what coverage it offers and what things are excluded from coverage, and determine if it meets your needs. If the policies are standard forms, you may not find much difference from one policy to the next, but you may find that one policy includes a type of coverage as standard that another policy offers only as an option. This may affect the premium you pay.

In addition, each insurance company is allowed to set its own rates, within limits, and you may find that coverage at Company A might simply cost more than the same or similar coverage at Company B. However, price should not be your only concern. For instance, the premium that Company A charges may be higher than the premium that Company B charges, but Company A may be the company you want as your insurer because you've had a good experience with them or because they have a good reputation in the industry. Finally, you may be satisfied with the service you receive at your current insurance company and may want to continue doing business there. You may even find that the premium you pay will be less if you own multiple policies with the same company and they give you a discount for doing so.

- Evaluate the strength and reputation of the insurance company – It's important to buy liability insurance from a financially sound and reputable insurance company. You (or your insurance agent) should rely on the ratings published by one of several companies, such as AM Best, Moody's, Standard & Poor's, and Fitch (formerly Duff & Phelps). These ratings can tell you how financially sound an insurance company is. In addition, try to find out something about the claims-paying practices of the insurance company by talking to your agent or any friends, family members or acquaintances who may have dealt with the company in the past. Does the company settle claims quickly? Does it refuse to pay certain claims? Does the company have a good reputation in the industry?
- Determine whether the policy is a claims-made or occurrence form – Most forms of liability coverage are written on an occurrence basis, which means that the policy covers injuries or damages that occur during the policy period, no matter when the claim is filed. However, some liability policies may offer coverage on a claims-made basis, which means that the policy covers claims that are made during the policy period, no matter when the injuries or damage actually occurred. To fully insure yourself against liability, you should make sure that your underlying liability policies are written on the same basis as your personal umbrella liability policy to avoid confusion over which policy will pay the claim.

Homeowners policy liability coverage: Special considerations

Liability coverage under one homeowners policy may not vary much from coverage under another homeowners policy because policies have been standardized. However, because insurance policies vary from state to state due to different insurance regulations, don't assume that if you move from one state to another, coverage for your new home in Tennessee will be the same as the coverage you previously had in Florida.

Automobile policy liability coverage: Special considerations

Automobile liability coverage is mandated in most states, but the minimum liability limits you are required to carry vary widely. When comparing policies, make sure that you compare various liability limits and consider the impact on your premiums before making a decision. Don't automatically buy just the minimum liability you are offered — it may not adequately protect you.

Umbrella liability policy: Special considerations

If you are buying an umbrella liability insurance policy, consider how it will affect coverage under your automobile or homeowners insurance. Because a personal umbrella policy is designed to supplement existing coverage, you usually need to have underlying basic coverage before you can purchase an umbrella policy. If you are buying a policy from a company other than the company that has issued your underlying coverage, you'll need to provide proof that you already have basic liability coverage elsewhere, and you will have to have certain liability limits already in force. If you are buying the umbrella policy from the same company that issued your basic coverage, that company may require you to increase the liability limits you carry on your homeowners and/or automobile policy, which will increase the premiums you pay for those policies as well.

Example(s): Hal wanted to buy a personal umbrella liability policy from the same company that insured his home and his car. Before he could buy the umbrella policy, however, he had to increase his underlying basic liability limits on both his homeowners and automobile insurance policies. The liability limit on his homeowners policy was increased from \$100,000 to \$300,000, and the liability limits on his automobile policy increased from \$100,000/\$300,000 to \$250,000/\$500,000.

Tip: Increasing the liability limits on your homeowners and automobile policies will increase the premiums you pay for those policies, but it will likely decrease the premium you pay for your personal umbrella liability policy.

Why conserve rather than replace existing liability coverage?

Because it wouldn't be cost effective to replace your existing coverage

Sometimes, after evaluating your existing liability coverage and comparing it to other liability coverage offered to you, you may conclude that replacing existing coverage would not be cost effective. First, the new coverage offered might be more expensive (or not substantially less

expensive) than the coverage you already own. Second, if you are replacing coverage to lower the cost, you may end up with a policy that offers less protection than you really need.

Because your policy adequately meets your needs

After analyzing your personal liability insurance needs, you may conclude that your liability coverage is adequate. Or, after comparing a policy you already own with a different policy, you may decide to stay with the insurance you already own.

Because you only need to make limited changes

Unless you have a good reason to replace your existing liability coverage, don't. If your liability coverage is part of a package (such as homeowners or automobile insurance), you won't have the option of dropping just the liability portion of the package; you'll have to buy a whole new policy. You may be able to make limited changes by adding endorsements that will suit your needs, rather than buying completely new coverage.

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