

Tax-Free Retirement Strategies for High Earners



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IMAGINE THAT YOU ARE DRIVING IN A RAINSTORM in Florida. You hit a patch of water and hydroplane into another car. The incident results in a collision involving several cars. The incident report has you at fault for the accident. You have automobile insurance, but your coverage is not sufficient to pay for the repair or replacement of the other drivers' vehicles or the medical costs that they're suing you for. Are your personal assets at risk? They could be. But you might also be protected against claims in excess of your auto coverage by an "umbrella" policy.

WHAT IS UMBRELLA INSURANCE AND WHAT DOES IT COVER?

Umbrella insurance is a liability policy that can cover you against claims beyond the limits of your auto or homeowners insurance. Claims are addressed initially by your auto or homeowners insurance; whatever is left falls under your umbrella policy. In the example scenario above, if your auto coverage is \$500,000, and you have a \$1 million umbrella policy, you would have \$1.5 million in coverage.

Umbrella insurance covers members of your household, so if your teenager was the driver, you would still be covered. Of course, it is always advisable to get the details on who and what is covered by your policy when you establish it.

WHO SHOULD HAVE AN UMBRELLA POLICY?

It makes sense to purchase umbrella insurance if your personal assets are not considered "asset-protected." Your assets are protected against liability claims when held jointly under tenants by entirety, in retirement plans, an asset protected trusts or family limited partnerships. Your primary residence is asset protected as well (homestead). However, even if you are adequately protected by how your assets are established and held, the additional coverage can be beneficial. For example, it might alleviate the need to hire an attorney to defend against the claims beyond the limits of your auto insurance coverage. Your auto and home insurance will provide an attorney for the insurance company, but having the umbrella allows you to continue that argument past your liability levels and it also incentivizes the insurance company to get things wrapped up under the umbrella or on your standard property and casualty policy.

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HOW DO YOU GET UMBRELLA INSURANCE?

You can obtain umbrella insurance through your homeowners, auto or boat insurance broker. You can talk with your advisor to determine an appropriate level of coverage based on your assets, then buy the policy through your insurance provider.

HOW MUCH SHOULD UMBRELLA INSURANCE COST?

Average costs for \$1 million of Umbrella Insurance coverage is typically between \$150-300 per year. Coverage beyond that will be incrementally smaller per \$1 million of coverage. For our family, we have several cars, so our baseline umbrella policy is \$162 annually, but to include our additional vehicles, it is an annual cost of \$327 total, for \$1 million of coverage.

Since umbrella policies pay out after your auto, homeowners, renters or co-op/condo policy coverage is exhausted, there will be basic levels of auto coverage required to qualify. According to the Insurance Information Institute, most insurers will want you to have \$250K of liability insurance on your auto policy and \$300K of liability insurance on your homeowners policy in order to sell you the umbrella coverage.

This type of insurance is something we recommend our clients have in order to protect them should something terrible occur. The costs are reasonable and could provide additional peace of mind that you are well protected. It is important to review all of your insurance coverage at least annually so you know what is covered and the limitations of that coverage. Your advisor can speak with you about this if you are looking for additional guidance.

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