

The case for Insurance in protecting personal net worth



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June 2010

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At least annually, you need to ask yourself, and your insurance agent or broker, is your personal insurance program is keeping pace with your personal net worth and the activities you engage in.

Today insurance options are sophisticated and varied. It is critical to remember that all insurance policies are not created equal and that your program may include gaps that could be filled by an insurance solution.

A liability insurance program should be customized to meet your individual needs. Limits can range from \$1,000,000 to \$100,000,000 - all depending on what is appropriate for you. In addition, several specific coverages such as directors & officers insurance, which is most commonly used for businesses, are available and can be added to your insurance program at a minimal cost to provide extra protection for your individual needs.

It is important to have coverage in place but it is just as critical, if not more so, to have the right coverage in place. Below are some examples of how essential the appropriate coverage can be:

A local businessman serves on a non-profit board for his favorite charity. The board is sued for \$5,000,000 but the charity's insurance policy has a \$1,000,000 limit. The businessman as well as the other board members are sued for the gap in the settlement.

In this scenario, the charity does have their own policy in place, however, as is usually the case for a budget-conscious non-profit, they have a policy with a low limit. What the board members may not be aware of is if suit is brought against the board and the \$1,000,000 is not sufficient to cover a settlement, the individuals could be sued to cover the gap. If the businessman has Directors & Officers coverage on his personal umbrella policy for serving on a non-profit board, that policy would cover his portion of the settlement gap (usually up to \$1,000,000) and his legal fees. The nominal premium to add this coverage to his insurance program is a wise investment in protecting his personal assets.

After five years of employment, a couple replaces their nanny. The nanny sues for sexual harassment and wrongful termination - a complete surprise to the couple. The suit is defended successfully, but the defense costs exceed \$400,000.

In this scenario, the couple had done nothing wrong and yet still found themselves in an expensive and time-consuming legal fight. Unfortunately, having wealth increases your risk of being targeted for even unsubstantiated lawsuits. If the couple had Employment Practices Liability coverage added to their policy, they would have coverage for lawsuits filed by domestic staff for allegations such as wrongful termination and discrimination. This coverage would also pay the legal costs to defend these allegations. Without this coverage, even though the couple won the legal case, they would still be personally obligated to pay the \$400,000 in legal fees.

You need your liability limits to protect your family if something unexpected happens for which you are responsible. Traditionally, liability insurance provides coverage to another person that you somehow harm, as the examples above demonstrated. However, you can also purchase coverage for protection in the event you or a family member is somehow harmed by an individual who does not have insurance, or who does not have adequate insurance. As an example:

A twenty year-old woman is driving on a busy road. She leans over to change the music CD and drifts across the center lane into oncoming traffic. A business owner in a large SUV swerves to miss her car, but runs into a cement barrier and is severely injured. The woman driver has insurance at the state required limits of \$25,000 per person.

In this scenario we see how insurance can help you to maintain the lifestyle to which you are accustomed as well as protect your assets. The woman that caused the car accident is clearly at fault, but her \$25,000 of coverage will hardly compensate the business owner's loss of income, medical bills and possible lifestyle changes that he must now endure. Having additional uninsured/underinsured motorist coverage can



also protect your lifestyle if you are a victim of an unforeseen event where the individual at fault does not have insurance or has insufficient policy limits to compensate you.

We recommend individuals discuss their insurance program with their agent or broker annually. In addition to addressing how best to protect your physical assets such as your home and vehicles, the discussion should also include how insurance can protect your personal net worth. This annual analysis should include, but is not limited to: any lifestyle changes (such as serving on a new board, student away at college, etc.), any changes to vehicles or watercraft, any work completed or scheduled to be completed on your residence, and any extensive travel plans you may be considering.