**What Is an Umbrella Insurance Policy?**

An umbrella insurance policy is extra [liability insurance](https://www.investopedia.com/terms/l/liability_insurance.asp) coverage that goes beyond the limits of the insured's homeowners, auto, or [watercraft insurance](https://www.investopedia.com/terms/w/watercraft-insurance.asp). It provides an additional layer of security to those who are at risk of being sued for damages to other people's property or injuries caused to others in an accident. It also protects against libel, vandalism, slander, and invasion of privacy.

**KEY TAKEAWAYS**

An umbrella insurance policy is a type of personal liability coverage that goes above and beyond the amount that regular home or vehicle insurance offers.

To own umbrella insurance, you must own standard homeowners, auto, or watercraft policy first; the umbrella policy kicks in after the regular coverage has been exhausted.

Candidates for umbrella insurance include people who possess considerable assets or potentially hazardous things, or who engage in activities that could increase their risk of being sued.

**How an Umbrella Insurance Policy Works**

The added coverage provided by an umbrella insurance policy is most useful to high net worth individuals who own a lot of assets or very expensive assets and are at a significant risk of being sued. Small businesses also use an umbrella insurance policy to guard against potential monetary damages arising due to claims.

The premium for an umbrella insurance policy may be less expensive, if the policy is purchased from the same insurer that provided the original auto, home, or watercraft insurance. Depending on the provider, the policyholder who wants to add an umbrella insurance policy is required to have a base insurance coverage of $150,000 to $250,000 for [auto insurance](https://www.investopedia.com/terms/a/auto-insurance.asp) and $250,000 to $300,000 for [homeowners insurance](https://www.investopedia.com/terms/h/homeowners-insurance.asp).

Umbrella insurance is often referred to as excess liability insurance. If a policyholder is sued for damages that exceed the liability limits of car insurance, homeowners insurance, or other coverage types, an umbrella policy helps pay what they owe. In other words, if the dollar limit of the original policy has been exhausted, the umbrella policy acts as a fail-safe, so the insured person doesn't have to dip into savings and other assets.

**A personal umbrella policy (PUP) is a form of liability insurance**. It protects you from financial responsibility if you cause damage to a person or their property and they file a lawsuit against you. Typically, umbrella insurance is a cheap form of coverage, and you can purchase it in increments of $1 million. However, insurance companies usually require you to carry auto or homeowners insurance before buying an umbrella policy.

## What Does Umbrella Liability Insurance Cover?

Umbrella policies protect you from financial liability if you cause damage to another person or their property. Examples of incidents where umbrella insurance may provide coverage include:

* A car accident for which you are at least partially at fault
* Someone falls or is otherwise injured on your property
* Your dog bites somebody
* Your bathroom floods and it causes water damage to your downstairs neighbor's home
* You're found guilty in a defamation lawsuit

It's important to understand that umbrella insurance only provides secondary coverage. This means if you have another policy that provides primary coverage, you'll need to exhaust that policy's limits before your umbrella coverage kicks in. For example, imagine a guest falls on your property and is critically injured, and they successfully sue you for $1 million in damages. If your homeowners insurance policy's [liability coverage limit](https://www.valuepenguin.com/how-much-homeowners-insurance-do-i-need#liability) is $250,000, that would be paid out first. Your umbrella policy would then cover the other $750,000 in damages. Without a personal umbrella policy, you'd be responsible for that amount yourself.

### What's Not Covered by an Umbrella Policy?

Personal umbrella insurance only provides liability protection—legal shelter from incidents when you've unwittingly caused damage to another person or their property. If you or someone else causes damage to your own property, your PUP insurance won't provide any coverage. For example, if someone drives their car into the side of your house, that driver's property damage liability insurance would cover the damage to your home. Or, if the driver didn't have an auto insurance policy, the [damage may be covered](https://www.valuepenguin.com/homeowners-insurance-coverage) by your standard homeowners insurance policy. By contrast, let's say your dog bites a guest, that person files a lawsuit against you, and the lawsuit exceeds your home insurance policy's liability limits. In that case, your umbrella insurance policy would help cover the difference.

In addition to your own property and medical care, your personal umbrella policy may not provide coverage for the following scenarios.

* **Business liability:** Property damage, injuries or losses for which your business is liable, such as malpractice, are not insured. Instead, these may be covered by the business's liability policies.
* **Liability due to criminal behavior:** For example, if you intentionally assault a guest in your home.
* **Liability incurred through contractual agreements:** For example, injuries sustained while a contractor does home repairs in exchange for payment.
* **Liability due to the use of recreational vehicles:** Some umbrella insurance policies may exclude coverage for injuries you cause while operating certain vehicles, such as a dirt bike or jet ski.

## Do I Need an Umbrella Insurance Policy?

If you have a significant amount of at-risk assets, or regularly engage in high-liability activities, you should consider purchasing a personal umbrella policy.

### You Have Significant At-Risk Assets

You should consider purchasing a personal umbrella policy if you have significantly valuable assets. For example, if your total net worth is $1 million, and you're at fault for a car accident that causes significant injury to another driver and their passengers, you would make a prime target for a lawsuit. Let's say you carry $100,000 of bodily injury liability insurance under your auto insurance policy (much more than the [minimum requirement](https://www.valuepenguin.com/minimum-car-insurance-required-your-state)) in most states). If the other driver sues you for $1 million in damages, you'd be responsible for the $900,000 difference. However, if your umbrella policy is worth $1 million, then that policy would cover the $900,000 that exceeds your auto insurance policy's limit. You would only have to pay the [deductibles](https://www.valuepenguin.com/choosing-homeowners-insurance-deductible) for your claims.

Typically, umbrella insurance policy limits begin at $1 million, and they can be increased in increments of $1 million. For most policyholders, a $1 million policy is sufficient to cover them. However, plaintiffs are more likely to file a lawsuit if they believe the defendant will be able to pay out a claim. So if you possess substantial assets in the form of nonretirement investments and real estate that you don't use as your primary home, you may need a higher limit.

In most states, certain retirement funds, such as money saved in 401(k) programs, are protected from lawsuits up to specified limits. However, other assets, such as real estate equity or even future wages, could be garnished.

### You Regularly Participate in High-Liability Activities

You might be a good candidate for umbrella insurance if you regularly participate in activities that could incur liability for another party's damages. For example, if you run a blog that posts reviews of local businesses, and a particularly negative review results in a defamation lawsuit, your umbrella policy could provide coverage. Or, if you regularly drive your child's friends to their sporting activities, you could end up responsible for extremely high medical bills should you cause a serious accident.

Even if you don't possess significant assets, you could still be sued for an amount greater than your entire net worth. In such situations, a personal umbrella policy will help protect you.

#### Others Who Should Consider Umbrella Coverage

* Long-distance commuters
* People who carpool
* [Rideshare drivers](https://www.valuepenguin.com/how-ridesharing-affects-your-auto-insurance)
* Owners of restricted dog breeds

## How Much Does an Umbrella Policy Cost?

Your umbrella policy's premiums will depend on the amount of coverage you require and a number of personal risk factors, including:

* Location
* The age and accident history of covered drivers
* Net worth
* Credit history

For example, if you're 45 years old and you have a net worth of $500,000, a clean driving record and an excellent credit-based insurance score, you can probably expect to pay between $150 and $350 per year for a $1 million umbrella insurance policy. However, if you add a teen driver to your auto insurance policy or increase your coverage to $2 million, you should expect to pay between $350 and $650 annually for your policy.

Most major insurance companies offer umbrella insurance coverage. However, they typically require you to carry a minimum amount of auto or homeowners insurance with them to provide primary coverage. Fortunately, by bundling multiple types of policies with the same insurance company, you may qualify for a discount.