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Umbrella Insurance Covers Worst-Case Scenarios. There Are Now More of Them.

While insurance premiums surged with inflation, coverage limits haven't

By *Veronica Dagher* [Follow](#)

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Umbrella insurance usually kicks in after the limits on people's other policies are exhausted. PHOTO: PARKER ESHELMAN/WSJ, ISTOCK (2)

The extra insurance meant to cover extreme situations for which regular car and home policies aren't enough is now needed more often.

Umbrella insurance usually kicks in after the limits on people's other policies are exhausted. It protects your assets from lawsuits related to events such as someone slipping on your icy driveway, a neighbor's child injured on your backyard trampoline, claims of defamation after an online post, and most commonly from serious car accidents.

Claims that a few years ago would have been fully covered by auto and home policies are triggering people's umbrella coverage more often, say insurance analysts and brokers. Financial-services company and insurance provider USAA said there has been a 45% increase in \$1 million umbrella claims opened in 2023 compared with 2021.

The increase is partly due to inflation, which has ebbed from its high point a few years ago but remains a continuing concern for some parts of consumers' budgets. Insurance has been particularly pricey.

The cost of umbrella insurance was hit hard by rising prices for repairs and medical bills and bigger legal settlements. And, while car and home insurance premiums also surged, one thing that didn't change is the coverage limits on most people's policies.



Saurabh Khemka is co-president of underwriting at insurance data-analytics company Verisk.

PHOTO: VERISK

A driver, for example, who had a serious collision with another vehicle three years ago that might have faced a \$240,000 claim, within the \$250,000 liability limit of many policies. If that same accident were to take place today, chances are the claim would be higher than \$250,000 and trigger the driver's umbrella policy—assuming they had one, said

Saurabh Khemka, co-president of underwriting at insurance data-analytics company Verisk.

The increase in umbrella claims has led some insurance companies to raise premiums and be less likely to grant higher limits.

Lee McWhirter, an independent insurance broker in Chevy Chase, Md., recently had a client who wanted to increase his umbrella policy to \$10 million from \$5 million. He was denied a limit increase because of a minor car accident a few years ago. About two years ago, this client wouldn't have had a problem increasing his limits, she said.

“As insurers look to limit their losses, they’re getting more selective,” McWhirter said.

Umbrellas aren’t as cheap

Insurance agents and brokers say customers are having a harder time getting approved for higher limits of coverage. Many people are paying higher premiums.

The average annual premium for umbrella policies in the U.S. rose by about 7% to \$328 in 2022 from 2019, according to Verisk.

While still relatively cheap, people are feeling the sting of bigger bills, especially as they’re already being saddled with higher auto and home insurance premiums.

Around two years ago or so, the highest premiums Regina Neenan would see for a million dollars of umbrella insurance was around \$350. This year, the highest premium Neenan’s seen clients pay for that same coverage was nearly \$900, the financial planner in Fort Collins, Colo., said.

It is often cheaper to bundle your umbrella policy with your auto and home insurance policies. Many umbrella policies require you to hold your car and home policies with them before they’ll write you an umbrella policy.

You generally have to meet minimum levels of liability coverage from your auto and home policies to be eligible for umbrella insurance. For instance, if your home insurance has only \$100,000 of personal liability, you may need to increase that to \$300,000 to get an umbrella policy from many carriers, said Kimberly Palmer, an insurance specialist at NerdWallet.

For years, David Shear paid about \$200 a year for his \$1 million umbrella insurance with Geico. The Los Angeles retiree has been asked to pay \$545 this year while he paid \$275 in 2021 for the same coverage.

Shear would like to shop around but doesn’t want to lose the multipolicy discount he gets for holding his auto policy there too.

Geico referred The Wall Street Journal to insurance industry trade association American Property Casualty Insurance Association for comment.

“Consumers need increasing amounts of insurance coverage as inflation has made cars and homes more expensive to repair and replace and recent natural disasters have caused record-breaking losses,” said Michael Richmond Crum, senior director of personal lines and counsel at APCIA.

How much coverage do you need?

Robert Stromberg, a financial planner in Abington, Pa., typically tells clients to have coverage equal to at least their net worth, but that amount may need to increase based on several factors including their car type and hobbies.

People in the public eye such as actors, politicians and journalists often have a tougher time getting umbrella policies or have to pay more for coverage as insurers usually deem them more likely to be sued, said Alex Reinman, an independent insurance agent in New Canaan, Conn.

While financial advisers enthusiastically recommend umbrella insurance as a relatively low-cost way to protect your finances, how much you need may change depending on your life stage.

If your net worth has decreased or you’re not driving as much, it may not be as necessary, they said. Pure Insurance said car accidents, many of which involved teen drivers, were a top cause for umbrella claims among its members last year.

Josh Trubow has clients who had \$4 million of umbrella coverage when they were working, but by age 85, they have drawn down on their savings and are no longer driving. They have since lowered their umbrella policy to \$2 million, said Trubow, a financial planner in Waltham, Mass.

He typically doesn’t recommend dropping the coverage entirely as it often also pays for your defense in court if needed.

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