

PERSONAL PROPERTY & CASUALTY INSURANCE PRIMER

DO YOU UNDERSTAND YOUR HOMEOWNER AND AUTOMOBILE FINANCIAL COVERAGES AND DO THE FINANCIAL LIMITS OF YOUR INSURANCE COVERAGES ADEQUATELY PROTECT YOUR HOUSEHOLD?

A. Homeowner Coverage: Check Your Financial Coverage Limits

We often find our clients have family assets that are more significant than the extent of liability coverage available under the client's homeowner policy. For example, it is not unusual to see our client has a net worth of \$500,000 or more, yet the homeowner policy has a \$300,000 per occurrence single limit, meaning if the homeowner knocks over the little old lady in the supermarket, or hits someone in the head with a golf ball, or has a neighbor child seriously injured in the pool, the limit of your coverage is \$300,000. A serious injury could cause several hundred thousand dollars in medical costs alone and claimants could look beyond insurance to personal assets.

If you do not know your homeowner liability coverage by heart, you need to pull your homeowner insurance declaration page and find out. There is no perfect coverage number as one size does not fit all. Having said that, increasing your liability coverage to \$500,000 or more may not be as expensive as you would think. The more significant your net worth, the greater the need for higher limits of coverage.

In an abundance of caution, check in with your agent. I find, agents will often soft sell greater coverages for fear they will lose an insured based on price or fear a customer will view them as pushy. Their everyday world is very price competitive, so you need to make family business decisions about coverage on your own. Once your agent sees your genuine interest in fully covering family risks, you will hear their true beliefs when they see proper coverages are just as important to you as price.

B. Motor Vehicle Liability Coverages (Your Household at Fault/Your Household Injured)

The same issue of protecting the general public from a negligent act of a household member bears true with your motorist coverages. **A serious automobile accident can cause extensive financial damages, and modest limits of insurance coverage could cause plaintiff's counsel to seek damages beyond the policy limits.** Most of our clients should have at least \$500,000 of liability coverage.

1. Protecting Your Household and Passengers: Uninsured/Underinsured Motorist Coverage

Keep in mind that in Vermont, Uninsured and Underinsured Motorist coverage provides Bodily Injury coverage which includes medical expenses, lost wages, permanency of injury and other injury related expenses when an accident is caused by an uninsured or underinsured driver. Uninsured Motorist Coverage is mandatory in Vermont, with minimum limits of \$50,000 per person/\$100,000 aggregate for Bodily Injury and a maximum limit of \$10,000 for property damage. However, most insurance companies will allow you to purchase Uninsured Motorist benefits at an amount equal to your policy liability limits. For example, if you have a \$100,000/\$300,000 liability policy, you will usually be able to purchase Uninsured Motorist benefits in that amount as well.

It is strongly recommended that you opt to have your Uninsured and Underinsured Motorist coverage match your policy limits as the coverage protects you, members of your household, and your passengers, not the general public. Uninsured and Underinsured Motorist coverage also provides coverage even if you are a pedestrian, bicyclist, motorcyclist, or bystander, so long as the motorist who caused your injuries was uninsured or underinsured (less than your coverages).

a. When Does Uninsured/Underinsured Motorist Coverage Apply?

Uninsured Motorist coverage applies whenever anyone who is insured is injured by a driver who is uninsured or underinsured (does not have enough insurance to pay for the damages caused). The term "uninsured driver" includes a hit-and-run driver. In Vermont, an unidentified hit-and-run driver is considered an "uninsured motorist" for the purpose of damage to your car.

Underinsured Motorist coverage only applies if the other driver's liability limits are lower than your uninsured coverage limits. Thus, if the driver who causes the accident has a liability policy of \$50,000 per person, you are not entitled to any uninsured or underinsured motorist benefits if your uninsured motorist coverage is for \$50,000 per person/\$100,000 aggregate. If, however, you have uninsured motorist coverage of \$100,000 per person/\$300,000 aggregate, you could receive up to the \$50,000 difference from your own insurance company for an injury to one person, and up to \$200,000 additional insurance if there were injuries to two or more of your family members or passengers in your car.

b. What Losses Are Covered?

Uninsured and Underinsured Motorist coverage is intended to compensate you for both your financial and your non-financial losses which you sustain, and for which you have a legal claim as a result of the negligence of an uninsured, underinsured, or hit-and-run driver. This would include any medical expenses which you reasonably required as a result of such an incident, any loss of income or earnings, and any reduction in your ability to earn money in the future or lifetime.

Non-financial damages include such things as loss of ability to enjoy or engage in certain activities as a result of injuries, pain and suffering, and other such subjective losses for which you are entitled to monetary compensation under the law, based upon the severity of the injury, whether it fully heals, what kinds of treatments are necessary, and how much time is required in order to achieve an optimum recovery.

C. Vermont Personal Umbrella Policy ("PUP")

The **majority of our estate planning and business clients** would benefit from excess liability coverage. This coverage provides coverages beyond your homeowner policy and your auto policy, often covering additional items such as defamation, wrongful eviction, and false arrest. **In Vermont, the most important coverage available may be the additional Uninsured/Underinsured Motorist coverage, which coverage - in Vermont - must be affirmatively requested by the insured to be part of the umbrella policy.** For example: your college-age son borrows your vehicle to take his best friend to a UVM hockey game and they are hit by a drunk driver in Vermont; serious injuries are sustained. The **responsible party** has a **\$50,000** per person/**\$100,000** per incident policy. The medical bills for both students exceed \$100,000. Your **family policy** is a **\$250,000** per person/**\$500,000** per incident policy. You have a \$1,000,000.00 Personal Umbrella Policy (PUP). Assuming equal damages, the coverages available are as follows:

| | <i>Son's Available Coverage</i> | <i>Friend's Available Coverage</i> |
|----------------------------------|---------------------------------|------------------------------------|
| Responsible Party: | \$50,000 | \$50,000 |
| Your Family Auto Policy: | \$200,000 | \$200,000 |
| | (\$250,000 - \$50,000) | (\$250,000 - \$50,000) |
| Your Personal Umbrella Policy: | ½ of \$1,000,000 | ½ of \$1,000,000 |
| TOTAL COVERAGE AVAILABLE: | Son: \$750,000 | Friend: \$750,000 |

Should the son and his friend each have a policy, more coverage may be available. Should the friend's family have a Family Policy and an Umbrella Policy, the friend could tap into those coverages. The friend is in a better position than your son as he may be able to "stack coverages" beyond what is available to your son. All the more reason to carry high coverage limits as, in a multiple person injury, the coverages must be shared based on the seriousness of the respective injuries. Here we said damages were equal.

Conclusion:

This firm often sees scenarios where our clients do not have enough coverage in place to cover a loss. High limit insurance coverages can be critical, often they are not as expensive as you might guess, and it will provide you peace of mind knowing you have purchased the top tier of coverage available in Vermont. Protecting your household from serious financial claims and serious uncompensated injury through homeowners and auto coverage is doable. We advise you to review this issue with your property and casualty agent. Tell them it is at our recommendation that you discuss insurance coverages with them and you will likely get your agent's true thoughts about increasing financial coverage.