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Why I Happily Pay \$183 per Year for my Umbrella Policy

I never pay for extended warranties on products. I don't have cell phone insurance, and I don't have a home warranty plan. I don't like to insure small things that I can afford to replace. I would rather save my money to replace or fix things when they break. I do like to insure losses that would devastate my family and that is why I happily pay for my \$1 million umbrella policy.

An umbrella policy is a liability policy that covers you after you have exceeded the liability limits of your auto, homeowners, or watercraft policy. Most auto and home insurers will not offer more than \$500,000 of liability insurance per incident in the state of Texas. I have the most liability insurance that my car insurance will allow. If I cause a large wreck and hurt passengers, my car insurance will pay up to \$250,000 per person, up to \$500,000 per accident, and up to \$100,000 for property damage (I better not total a new Tesla Model S).

Hospital beds and surgeries are expensive

\$250,000 for one person's hospital bills, time off work, and pain and suffering used to seem like a lot of money to me. With more life experience and the rising cost of hospital stays and surgeries, \$250,000 now seems painfully inadequate. According to the Texas Department of Transportation, there were 230,506 people injured in motor vehicle accidents last year. That is one person every 2 minutes and 17 seconds.¹ 3,399 people died in automobile accidents!²

People have become increasingly litigious

I do not trust the court system in this country. Your fate can be sealed by a capricious judge or jury. Desperate people will sue you for almost anything. [Here](#) is a crazy article about victims who were sued by criminals. You can be sued for things like:

- your dog biting a neighbor's child
- someone falling at your home
- you didn't lock your gate and your neighbor's child drowns in your pool
- someone driving home drunk from a party you who gets in an accident
- your child killing people in an auto accident (who can forget the recent "[affluenza](#)" case where a teen killed four and injured two)
- false arrest
- libel and slander

Getting sued for hundreds of thousands of dollars is stressful enough. Imagine knowing that you could also lose most of your life savings because you are under-insured. You can't know how the judge or jury will react to your case until it is over. The piece of mind I get for a couple hundred dollars a year is well worth it to me.

¹ http://ftp.dot.state.tx.us/pub/txdot-info/trf/crash_statistics/2012/01_2012.pdf

² http://ftp.dot.state.tx.us/pub/txdot-info/trf/crash_statistics/2012/01_2012.pdf

What if all my assets are in my homestead, retirement plans, life insurance, and annuities?

I am all for using the above vehicles to protect your assets from creditors. Employing asset protection strategies can reduce the total amount won in courts or settled for. However; bank accounts, a second home, or a non qualified brokerage account are not protected from creditors. Even if all of your assets are in your house and your retirement plan, you can still have your paychecks garnished if you lose a law suit above your liability limits in many states.³ How would you like \$2,000 taken out of each paycheck for the rest of your working life? For the low price of an umbrella policy, it just makes sense to offload this risk to an insurance company.

Lawyers are expensive

I view my umbrella policy as a prepaid law team that is partnering with me in the event I am ever sued. An average lawyer can cost \$200 per hour and that is about what it costs to have a \$1 million umbrella policy for a year. I take great comfort in knowing that if I were ever sued, my insurer is on the hook for a lot of money. Whether the case was frivolous or I actually caused someone's loss, I will have a team of experienced lawyers trying to protect their company as well as me from excessive loss in a tort claim.

Can insurers be trusted to pay?

I have been paid three times for claims on my homeowners policy and three times by other people's auto insurance policies. In all cases, I have been impressed with the speed of the claims and the fairness of the adjuster's estimation of my loss. I am sure there are a thousand bad stories out there, but most of the big property and casualty insurers have good reputations to uphold. I think many of people's frustrations come because they haven't read their 50 page policy and expected certain things to be covered that weren't covered.

In Texas we have the Stower's doctrine on our side when it comes to protection from liability insurance companies. It "holds that a liability insurer that undertakes the defense of an insured has a duty to act in good faith in settling a liability claim."⁴ Let's say that someone sues you and agrees to settle the case for \$1,300,000 and you have \$1.5 million in liability coverage. Your insurance company is not obligated to settle the case for \$1.3 million and could decide to take the case to trial. If the insurer end up losing in court and you now have a judgement of \$2 million against you, you may be able to have the court apply an extracontractual duty on the insurance company if you can prove that they acted unreasonably by rejecting the first settlement.

How can you pay for the extra coverage

Domestique Capital does not sell umbrella policies, but I hope that I have convinced you that the benefits of an umbrella policy outweigh the small costs. It would be devastating for me to have worked a lifetime, saved a few million dollars, and then to lose my life savings because I fell asleep while driving and injured people in a car accident.

³ <http://tort.laws.com/liability-insurance>

⁴ <http://www.irmi.com/online/insurance-glossary/terms/s/stowers-doctrine.aspx>

If you are ready to take action, you will first need to call your property and casualty company and make sure that you have the highest liability coverage that they will offer you (usually \$500,000). This will increase your annual premium on your homeowners and auto policies. If your auto insurance deductible is at \$250 or \$500, consider increasing your deductible to \$1,000. By taking more personal risk, your insurance company will cut you a break on your annual premium of around \$100 to \$300 per year. You can use these savings to help pay for your increased liability insurance and your umbrella policy. Some people are afraid of such a high deductible. I think the \$1,000 makes sense because you shouldn't make a claim for less than \$1,000 because your car insurer is likely to raise your rates.

If your deductible is already \$1,000, talk to your agent about what personal injury protection is on your car insurance. Some people will think it makes sense to drop the relatively small payouts of personal injury protection in favor of the relatively larger payouts for more liability insurance. Like I said at the beginning of the article, I am no fan of having insurance on every small thing in life and being premiumed to death. I prefer to insure things that have a very small chance of happening, but if they did happen the losses would be catastrophic. Losing a \$1 million liability suit would definitely fall into that category for most people.



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