

Liability Insurance

Many people do not realize that certain lifestyle choices may increase their risk of a lawsuit. These can range from acts as mundane as carpooling kids around town to more extravagant affairs like hosting charity events or sitting on a non-profit board. No matter the reason, the potential cost of a lawsuit should not be underestimated—neither in the time nor money spent defending yourself. You insure your home, your vehicles, and your health. Don't forget to insure your personal liability as well.

WHAT IS AT RISK?

Homeowners and auto insurance policies generally include \$300,000 to \$500,000 in personal liability coverage, but these amounts may be much lower than a potential judgment against you if you are sued. Left uncovered, here is what you could stand to lose in a civil liability lawsuit:

- **Investable Assets** – Investment asset protection varies greatly by account type. Savings and brokerage accounts are largely at risk, while most employer-sponsored retirement plans—including 401(k)s—are completely protected thanks to federal ERISA laws.

IRA and Roth IRA accounts do not necessarily receive the same protection as employer plans, however. State law determines the portion of the IRA or Roth IRA shielded from creditors and lawsuits. Examples include:
 - **Oregon** – IRAs and Roth IRAs are fully protected.
 - **Washington** – IRAs and Roth IRAs are fully protected.
 - **California** – IRA assets are protected only to the extent necessary “to provide for the support of the judgment debtor when the debtor retires, taking all other resources into account.” **Roth IRAs are not protected.**
 - **Arizona** – IRAs and Roth IRAs are protected except for amounts contributed within the prior 120 days.
- **Tangible or Physical Assets** – Assets including your home, vehicles, boats, aircraft, and art collection are at risk in the event of a lawsuit. As mentioned above, most home/auto/boat insurance policies provide a small amount of liability coverage. If the judgement awarded against you exceeds these limits, however, you could be forced to relinquish or liquidate these assets.
- **Future Earnings** – If you are a high-income earner or have several working years remaining, many attorneys will include a claim against your future earnings in the lawsuit. This can result in substantial garnishment of future wages should a court find you liable and order you to pay damages.
- **Money Spent Defending Yourself** – Legal costs can be exorbitant when faced with defending yourself from a lawsuit. Some, but not all, liability insurance companies include this in their coverage. When included, the amount used to pay for your legal expenses usually reduces the amount of coverage available to pay for a potential judgment. Even if you are eventually relieved of liability, you may spend a substantial amount of time and money to clear your name and restore your reputation.



WHAT LIFESTYLE ACTIVITIES INCREASE MY RISK?

Obvious activities like owning an aircraft increase your liability risk, but there are also many less obvious ones that heighten your chances of being sued. If you find that one or more of these seemingly regular activities applies to you, we recommend that you evaluate your liability coverage.

- **Rental Properties** – If you own rental property, you may face situations in which a tenant attempts to sue you for injuries sustained on the property or for what the tenant views as wrongful eviction. Consider additional liability coverage that will extend beyond the limits on the homeowners/renters policies.
- **Domestic Staff** – Domestic staff including house cleaners, nannies, lawn maintenance teams, drivers, chefs, etc. employed directly by you (not through a separate agency) put you at an increased risk should they get injured on your property or if you terminate their employment. In addition to an umbrella policy, it is highly recommended that you obtain worker's compensation insurance for all staff as well.
- **Hosting Social Gatherings or Charity Events** – People often host events or fundraisers without considering the potential liability. The obvious case is a guest getting injured at your gathering. However, a guest that consumes too much alcohol and injures another person or damages property after leaving your event may open you up to liability claims.
- **Public or High-Profile Job** – Unfortunately, in today's litigious society, being a public official or maintaining a high-profile job, such as CEO, may increase the probability that someone decides to sue you.
- **Carpooling Children** – Any time you chauffeur kids to and from events or have additional children on your property you are increasing your liability risk.

BASIC OF UMBRELLA LIABILITY INSURANCE

Umbrella liability insurance is additional coverage that can be accessed once the liability coverage on your home or auto policy is exhausted. In order to obtain an umbrella policy, however, the issuing insurance agency may require you to raise your auto and homeowners' liability limits.

Umbrella insurance coverage is sold in \$1 million increments and the cost depends on a number of factors including the number of homes/cars/boats owned and the number of drivers in the household. The average annual cost can range between \$150 and \$300 for the first \$1 million, \$75 to \$100 for the second million and approximately \$50 for every million beyond that.

REVIEWING OR CHANGING COVERAGE

If you are concerned about your risk or have existing coverage and want to determine if it's appropriate, we can facilitate an evaluation. Aldrich Wealth does not sell insurance; we simply guide you through the evaluation and education process. We do, however, have relationships with credible insurance brokers in our geographic markets. Brokers are able to place policies with many different companies, allowing them to find the most suitable insurance company and product for your specific needs. Aldrich Wealth does not receive any payment, commission or revenue sharing for the policies sold by these brokers. If you do not already have a trusted insurance agent or broker, we would be happy to introduce you to a local professional.

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