

Greetings and congratulations on surviving the hottest summer ever!

This issue tells a true story of a client of modest means, already struggling financially to make ends meet with their daughter in college, who has to face a \$3,500 uninsured claim, involving a borrowed car. A claim that could have been covered by the right personal umbrella policy.

**ARE YOU FULLY
COVERED WHEN YOU
DRIVE A BORROWED
CAR?**

If you cause an accident driving a borrowed car, your own personal auto policy coverage will extend as if it were your own car, which means that your Liability Insurance coverage will cover your obligations for injuries and property damage to others that you cause. Your Medical Payments or Personal Injury coverage, along with your Health insurance, will cover your medical bills. And if you have Collision coverage on at least one of your cars, that Collision will pay for repairing the damages you caused to the borrowed car, subject to your Collision deductible.

**A POTENTIAL
COVERAGE GAP—
STORYTIME**

From my files recently. Kimberly "Mont," the 19-year-old daughter of clients John and Sondra "Mont," is a sophomore at Iowa State University. She does not have her own car at school but she is listed as a driver on her parents' policy. Recently, she borrowed a friend's car to go shopping for a pair of new running shoes at a nearby town. It was dark and icy, and she was unfamiliar with her friend's car. She missed a turn and struck a guard rail. Fortunately, the driver's airbag went off, and Kim escaped with just some scratches. Her friend's \$3,500 car, however, was demolished. Kim owes her friend \$3,500.

**WHERE WILL THE
\$3,500 COME FROM?**

Sadly, Kimberly's pocket. Her friend did not buy Collision coverage on her own car. And John and Sondra don't buy Collision coverage on their 1986 Honda (which, if they had, would have covered the damage). If either the owner or the driver has Collision coverage, insurance would pay all but the Collision deductible.

**"BUT WHAT
ABOUT LIABILITY
COVERAGE?"**

"Doesn't it cover both injuries and property damage I cause?" Yes it does cover injuries and damage to property that you cause. For example, if the guard rail was badly damaged and needed to be replaced, the liability coverage would pay for that. But Automobile Liability coverage virtually never covers your responsibility for damage to property of others in your care.

**"DOES THIS
COVERAGE GAP
APPLY TO RENTED
CARS TOO?"**

Yes it does, in most areas of the country except for a few states, like Minnesota, where the state law overrides the policy. Minnesota requires your auto policy liability coverage to pay for 100% of all damage to cars rented in the United States or Canada. Minnesota residents can safely decline the optional Collision Damage coverage from the car rental agency as long as they have at least one car insured in Minnesota and as long as they rent in their personal name.

**"HOW CAN I
PROTECT MYSELF
FOR THIS COVERAGE
GAP ON CARS I
BORROW?"**

There are two ways. Always buy transferable Collision coverage on at least one car that you insure—especially if you have a child away at college who occasionally has to borrow cars to get around. Alternatively, buy the right Personal Umbrella Policy that covers damage to property/vehicles that you borrow or rent, subject to an umbrella deductible of typically \$500 per claim.

**FOUR BENEFITS OF
CARRYING
COLLISION
COVERAGE ON
YOUR CARS**

First, Collision coverage is the only coverage that will pay to repair damage to your car from a car accident. The second reason is faster and easier claims handling by collecting from your own insurance company, when it is primarily the other driver's fault. A third reason is that your Collision coverage will transfer and pay for repairs that you cause to borrowed or rented vehicles. An important fourth reason, if the accident is not your fault, your out-of-pocket expenses will usually be less using your Collision coverage than they will be, trying to collect from the other driver. And with considerably less hassle!

**ILLUSTRATING
BENEFIT NUMBER
FOUR OF COLLISION
COVERAGE**

Assume another driver fails to yield to you and makes a left turn directly in front of you. You swerve to try to avoid him without success. There is \$4,000 damage total to your car. Your Collision coverage deductible is \$1,000. The other driver is deemed to be 80% at fault.

- Scenario number one: you forgo your Collision coverage and collect from the other driver's insurance company. After much frustration and hair pulling on your part, they finally agreed to pay you 80% of your \$4,000 damage = \$3,200. Your out-of-pocket cost is \$800.
- Scenario number two: you take the easier path, collect from your Collision coverage, and pay the \$1,000 deductible. Then your insurance company pursues the other insurance company for reimbursement of 80%. A few months later, your insurance company recovers that 80% from the other company and returns 80% of your deductible to you. 80% of the \$1,000 you paid = \$800. Your net out-of-pocket cost is \$200.

Bottom line—by taking the easier path and using your Collision coverage, your net cost is \$200 instead of \$800, leaving you \$600 better off.

About the only time you should spend your energy pursuing the other driver and his insurance company on your own is if you don't have Collision coverage on your own vehicle. (FYI, I'm not recommending against dropping Collision coverage on older cars when the premium savings justify that. I'm simply giving you four good reasons for not dropping the Collision coverage if you're on the fence about the decision.)

**THE THREE MAJOR
BENEFITS OF A
PERSONAL
UMBRELLA POLICY**

1. The first benefit is that it provides \$1 million or more of extra liability coverage on top of your primary personal liability coverage for your auto, home, boats, etc., so that when your basic coverage runs out, you still have \$1 million or more "in the bank" protecting you.
2. The second benefit is potentially hundreds of thousands of dollars of additional defense coverage. Even if the lawsuit is ridiculous, but you are sued for more than your primary coverage (i.e., being sued for \$800,000 when you have \$300,000 of automobile coverage), you will have to defend yourself for that excess lawsuit amount. Your automobile policy is obligated only to defend you up to the policy limit. Defense costs on a serious injury could easily be \$100,000 or more—out of your own pocket!
3. The third benefit, and probably the least known benefit, is "gap coverage." Your underlying policies have a number of limitations and exclusions, many of which are not in the umbrella policy. Claims not covered by your personal underlying policies would be covered by your umbrella policy if they're not specifically excluded. Case in point—Kimberly's car accident. Her Automobile policy did not cover damage to the borrowed car, but if they had purchased the umbrella policy I recommended—for \$150 per year—that did not have that exclusion, the umbrella policy would have covered the loss.

DOES YOUR UMBRELLA POLICY COVER DAMAGE YOU CAUSE TO A BORROWED OR RENTED VEHICLE?

Insurance Company	Coverage for Damage to Borrowed Cars?	The Deductible That Applies
Auto-Owners	Yes	\$250
Harleysville	Yes	\$1,000
Western National	No	N/A
Safeco	No	N/A
Chubb	Yes	\$0
U.S. Liability Insurance	No	N/A
Farmers Home	No	N/A
Met Life	No	N/A

EXAMPLES OF OTHER GAPS THE RIGHT UMBRELLA POLICY CAN COVER*

Your service on non-profit boards of directors, as long as there is no compensation. Your liability operating rented watercraft on vacation, including damage to the watercraft. Same for ATVs and snowmobiles. Excess employer's liability coverage if you have any domestic employees. Pollution liability for fuel tank leakage. Excess Uninsured/Underinsured Motorist. Coverage for company cars that aren't fully covered under a Personal Auto Policy. Injuries to couriers making package deliveries to your home office. Coverage for children's part-time businesses.

**Caution:* Your Umbrella policy may not cover all of the above exposures. Please contact us if you are involved in any of these activities so that we can check to make sure your umbrella policy covers you.

"HOW DOES MY UMBRELLA INSURER COVER DAMAGE I CAUSE TO RENTED BOATS, ATVS OR SNOWMOBILES?"

Insurance Company	Damage to Boats?	Damage to ATVs/snowmobiles?
Auto-Owners	Yes *	Yes **
Harleysville	No	Yes
Western National	No	No
Safeco	No	No
Chubb	Yes	Yes
U.S. Liability Insurance	No	No
Farmers Home	No	No
Met Life	Yes	Yes

* only if the homeowners policy is also with Auto-Owners

** only if the insured does not own a recreational vehicle themselves (a coverage flaw that I'm working with Auto-Owners to try to correct)

IF YOU BORROW OR RENT CARS, BOATS, ATVS OR SNOWMOBILES

If your current umbrella insurance company, as spelled out in the charts above, does not cover damage you cause to these units and you want the coverage, call Carol Bechay in my office and have her price your insurance coverages in one of the companies that does cover this kind of claim. Carol can be reached directly at 952-896-9536 or by e-mail at cbechay@corporate4.net.

MY REQUEST TO OUR UMBRELLA INSURERS

I appeal to any insurance company listed on these tables above that is not providing coverage currently for damage to rented or borrowed vehicles, boats, or recreational units to reconsider and start to provide the coverage. In my opinion, each of these columns should have "yes" in every single box. Raise the cost of your umbrella if you need to. Most people would gladly pay a little extra to have a stronger umbrella policy.

**MY UMBRELLA
ADVICE TO YOU**

Buy an Umbrella policy. Buy \$1 million more coverage than you think you will need (coverage is available up to \$10 million.) And, since the scope of coverage varies widely from one umbrella policy to another, always be sure to buy an umbrella policy that best covers the kinds of activities in your life for which you have no coverage elsewhere. Carol Bechay and I can help you discover which activities in your life are currently not insured and help you choose the best Umbrella policy which will cover as many of those gaps as possible.

**SOME THINGS TO
CONSIDER BEFORE
LOANING YOUR CAR**

Ask yourself "Where is the money coming from if the car is damaged by the driver?" If the driver does cause an accident, how much of a claims-free discount will you lose by filing the claim? And finally, even if the driver does have insurance covering the damage, it is standard practice in the insurance business that the insurance on your car—namely your insurance—has to pay for the claim. The driver's coverage only comes into play if you as the owner don't buy Collision coverage on the car.

**A TOUCHING
POSTSCRIPT TO THE
JOHN MONT STORY**

I felt so badly for John and Kimberly to have to come up with \$3,500, that I solicited \$100 contributions from a few friends and clients to help John. Many thanks to those who generously responded to that request. We collected \$1,700 of the \$3,500. John was very touched by the generosity of strangers, as was I.

**CHECK YOUR CREDIT
WITH A FREE CREDIT
REPORT...**

www.annualcreditreport.com is the only web site authorized by the Federal Trade Commission to provide a free credit report to consumers from each of the three major credit reporting companies every year. With so much of your automobile and homeowners insurance premiums dependent on your credit these days, check it out for yourself. I bet that you find some errors! (I did!)

**GET SOME RISK
MANAGEMENT HELP
FROM YOUR VERY
OWN TRUNK MONKEY**

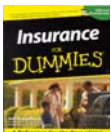
Have to close with some laughs. If you haven't seen the trunk monkey commercials for an Oregon automobile dealership, check them out. They are hilarious! (Plus they are great examples of personal risk management in its purest form!) Go to www.trunkmonkey.com and open just the automobile dealership ads.

I just received the best compliment ever on my book, Insurance for Dummies, from a client—Lynn J. To quote her "It was like reading a great novel. It was fascinating. I just could not put it down!" (Does it get any better than that for an author! Naturally, it goes without saying that brilliant perception earns Lynn free insurance for the rest of her life!)

Thank you so much to those of you who sent me all kinds of prayers and support prior to my Parkinson's surgery in May. I survived and it was a great success. My body movements and tremors are nearly gone. The rigidity in my body is about 85% gone. I feel 10 years younger—like busting out of a cocoon. So, to quote George Costanza: "I'm back, baby! I'm back!" (Only one downside to the surgery without all that shaking going on, I gained 8 pounds in the first 30 days!) I'm grateful to Medtronic for creating this process that can make living with Parkinson's so much better!

All the best,

Jack Hungelmann



Insurance For Dummies authored by Jack Hungelmann. Buy it online at www.dummies.com or www.amazon.com.