

## 7 Major Pitfalls of High Net Worth Insurance Programs

By Kurt Thoennessen, CAPI



Imagine designing a program of insurance that covers multiple homes in different states and countries, incorporates estate planning strategies, covers automobiles in multiple states, covers valuable collections housed all over the world and covers personal liability lawsuits that may arise. Insurance program design for individuals with these types of needs are fraught with pitfalls that could result in serious financial loss if the insurance is not structured properly. Seven of these potential pitfalls are described below.

### **Placing homes into LLCs, Qualified Personal Residence Trusts, and other entities for estate planning purposes**

Utilizing trusts and LLCs to protect your assets or implement tax strategies are sound estate planning tools, but these entities need to be added to the home insurance policy to avoid potential complications at the time of a claim.

### **No Umbrella / Excess Liability Coverage**

What is the one thing that can wipe out your wealth that no one can control? A large liability lawsuit against you caused by an injury to another person at your home, on the road, or elsewhere that you are liable for. The personal excess liability policy is specifically designed to protect you from this unlikely, but possible event. Most insurance companies who specialize in protecting wealthy individuals can offer up to \$50,000,000 in coverage. The average cost of \$10,000,000 is about \$1,250.

### **Lack of protection against the risks of employing domestic staff**

Lawsuits against employers of domestic employees are becoming more prevalent and wealthy individuals are an attractive target. In addition to employment practices exposures like harassment, wrongful termination and age discrimination, employers of domestic staff also need to abide by any legal requirements for workers compensation and other statutory coverages in the state or country where they provide employment.



### **Overlooking changes in the occupancy of a home**

A home undergoing a major renovation, an owner occupied home that becomes a rental property, and a home that remains for sale after the owner moves out all undergo changes in occupancy, which contribute to an increased risk of loss. Insurance coverage can be limited, declined, or altered from what is expected if one of these situations exists at the time of loss.

### **Inadequate coverage for risks on the road**

Auto insurance is complicated despite how easy the commercials say it is. It is even more complex for individuals with cars in different states. For example, some states limit your ability to sue for damages and others offer discounts when you have health insurance that covers auto related injuries. Many people are so focused on getting a low price that they overlook the coverage they need to protect themselves and their families in the event of a serious accident.

### **Misunderstanding international property coverage differences**

Protecting yourself from the risk of a financial loss extends beyond the borders of your home country. It is important to make sure that the coverage obtained in a foreign country is on par with what you are accustomed to. This can be challenging due to differences in the insurance regulatory environment of that country and insurance product availability.

### **Poor planning for catastrophe coverage**

Some wealthy individuals own luxury properties located on islands, near the coast, in earthquake prone areas and other beautiful areas. Understanding the exposure to catastrophes like flooding, hurricanes, and earthquakes is critical to making informed decisions about how to protect these homes from these risks.

It is easy to get overwhelmed by insurance, especially since there are more pitfalls than are mentioned in this article that can affect a high net worth individual's insurance program. Working with a personal insurance expert who specializes in working with high net worth individuals and families will help you avoid these and other pitfalls with your personal insurance.



#### **About the Author**

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Kurt is developing a new technology platform to help owners of high value assets address the issues raised in this article, called InsureScope. Please visit [www.insurescope.com](http://www.insurescope.com) if you would like to be notified when the site is launched.

