Five Ways Homeowners May Be Putting Their Wealth at Risk

Affluent families often pay close attention to their investable assets. But sometimes those same families overlook important financial safeguards for two of their largest assets: their house and the contents within it.

The result: Some families could be needlessly putting a key component of their wealth and well-being at risk.

Therefore, it makes sense for you to examine how you've incorporated your home into your planning to determine whether there are any issues you need to address—before they become major problems that damage your wealth and can't be easily fixed.

In general, the more significant problems in financially protecting a primary or secondary residence stem from insufficient insurance coverage. Here are some examples.

1. Failing to have enough liability insurance

Is your net worth greater than or less than your umbrella policy? While many (but not all) affluent families have umbrella policies, we find that a large percentage of them do not have enough coverage. Specifically, if your net worth is greater than your liability coverage, you might want to look into increasing the coverage. Umbrella policies are often the most cost-effective and least expensive form of asset protection you can get.

Example: A hypothetical affluent family has a net worth of over $10 million but carries only a $1 million umbrella liability policy. There has been no communication between the family's property and casualty agent and their financial advisors in years. Because of asset positioning and planning done by the financial advisors, the amount of their assets that would be attachable in a lawsuit totals around $6.5 million. In other words, because they carry only the $1 million umbrella policy, more than $5.5 million of their net worth is unprotected.

Pro tip: Consider determining the amount of assets attachable in a lawsuit and then setting your umbrella limits to cover either that amount or your entire net worth if you have done only minimal planning. Also be sure you name all items that should be named on the policy.

2. Failing to ensure cohesive coverage on multiple homes

Some affluent families have multiple homes—their main residence and a summer place, for instance—and these houses are often in different states. Such a scenario can lead to complications, particularly if the homes are covered by policies from different insurance companies.

EXAMPLE: A hypothetical family whose primary residence is in New York state also owns a beach house in South Florida and a ski home in Aspen. The family has coverage on all homes, but each home has a different policy and different agents. Ideally, for cohesive coverage and cost savings, all the policies should be written with one high-net-worth insurance company.

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AVOID THESE MISTAKES

3. Failing to list trusts or limited liability companies on their homeowner's policies

Astute affluent families often make smart use of trusts and LLCs as part of their estate plans. But a significant portion of these families fail to identify the trusts and LLCs as additional insureds—a mistake that can work against them.

EXAMPLE: A hypothetical retired businessman and his wife relocate to South Florida for health and tax reasons. Once there, they establish residency and have a new estate plan drafted. They place their new Florida primary residence in an LLC and also move their vacation home in Maine to an LLC.

In the offseason of the following year, a caretaker in the Maine home has a serious fall in the house—and he sues. But the LLC that was created (which now has beneficial ownership) was never named as an insured on the homeowners or umbrella policies. The end result: The couple pay the settlement out of pocket, racking up a substantial loss.

4. Failing to address—or to adequately address—unique home features or building materials

Some affluent families have historic homes that have unique construction and were built using expensive materials. By not attending to these factors, rebuilding costs could easily be far greater than the coverage.

EXAMPLE: A hypothetical Florida couple purchase a stately old Palm Beach mansion with an old wood known as pecky cypress throughout the home. Pecky cypress, once common, is very rare today and extremely expensive to replace. The new owners don't use a quality high-value insurer who could evaluate and properly insure the unique building materials. So, naturally, they don't realize that the replacement costs of the marble, plasterwork and pecky cypress would be much higher than those of regular building materials. A fire that occurs during a kitchen and bathroom renovation results in massive out-of-pocket costs for the couple.

5. Failing to provide proper coverage for high-value assets

Some affluent families have significant collections of valuable art or particularly expensive cars. Still others own horses, while a select few might own planes or yachts.

EXAMPLE: A hypothetical California couple with a love of art have been buying pieces for more than 30 years. They lack current appraisals and have no idea about the total value of the collection. They assume that if something happens, they could make a claim on their homeowner's policy. When a piece suffers damage, they discover that the item has an extremely high value. They also learn that the personal property coverage on their homeowner's policy is not enough to replace it. They quickly contact an agent referred to them and individually insure each piece of art—as should have been done at the outset. A scheduled art policy means that the values are protected even with an increase since the last appraisal, and there is no deductible. The insured is compensated for the entire loss.

This same standard applies to other collections. High-value assets need their own policies that insure the proper values and are not subject to deductibles.

THE UPSHOT: Just as you need to assess and fix your roof and gutters from time to time, you might also need to evaluate and repair your home insurance situation.

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