

Household Exception Upheld by Pennsylvania Supreme Court

by [Sharon Harvey](#), Esquire

Recently, the Pennsylvania Supreme Court issued its decision In Erie Ins. Exch. v. Baker, 972 A.2d 507 (2009) which upheld the validity of the "household exclusion" contained in the Erie Insurance policy issued to Gene Baker. In a close decision (4-3) the Pennsylvania Supreme Court upheld the validity of Erie Insurance's household exclusion which stated: "This insurance does not apply to... "damages sustained by anyone we protect while occupying or being struck by a motor vehicle owned by you or a relative, but not insured for Uninsured or Underinsured Motorists Coverage under this policy."

In Erie (Supra) Gene Baker owned and operated a motorcycle which was insured by Universal Underwriters. The Universal Underwriter's policy provided \$15,000 in UIM benefits. While riding his motorcycle Baker was involved in a motor vehicle accident and the \$15,000 UIM limits were insufficient to compensate him for the injuries he sustained. Baker attempt to recover addition UIM benefits under his own Erie Insurance policy which covered three vehicles he owned. Baker did not sign a waiver of his rights to "stack" the coverages for these three vehicles.

Erie declined to provide benefits and filed a Declaratory Judgment action seeking a determination of its rights and obligations under the policy issued to Baker. Erie argued that the unambiguous language of the policy precludes coverage in this case because Baker was injured while riding his non-Erie-insured motorcycle. At the trial level Erie filed a Motion for Judgment on the Pleadings which was granted. The Superior Court affirmed the decision in an unpublished memorandum opinion. Baker then filed a Petition for Allowance of Appeal with the Pennsylvania Supreme Court, which was granted.

Before the Supreme Court Erie argued that if the exclusion was invalidated, Erie would be forced to pay on a risk it did not knowingly insure, or collect a premium to underwrite. Erie also argued that household exclusion did not violate the "stacking" provisions of the MVFRL.

Baker argued to the Supreme Court that the household exclusion violated the Pa. MVFRL staking provisions. Baker claimed that he was entitled to the "sum of limits for each motor vehicle as to which [he] is an insured" under Section 1738(a) because he did not execute the stacking rejection form authorized by that statute.

In its opinion the Supreme Court recounted the various challenges to the household exclusion including Prudential Prop. & Cas. Ins. Co. v. Colbert, 572 Pa. 82, 813 A.2d 747 (Pa. 2002) and Eichelman v. Nationwide Ins. Co., 551 Pa. 558, 711 A.2d 1006 (Pa. 1998). In Eichelman the Supreme Court rejected the insured's claim that the household exclusion clause was void as against public policy. In Prudential the household exclusion was challenged by the insured as contravening public policy, but the majority of the Supreme Court held the exclusion was valid, and functioned as an effective insurance cost-cutting measure.

In Erie (Supra) the Supreme Court concluded that the household exclusion contained in the Erie policy was unambiguous and that there was no UIM coverage under the circumstances of Baker's case. The Supreme Court also stated that: " this case is not about stacking. It is about an applicable, unambiguous exclusion designed to preclude unpaid coverage of unknown risks. " With its decision in Erie (Supra) the Supreme Court has continued to uphold the validity of the household exclusion as a cost saving mechanism which prevents an insurance carrier from paying benefits for a unknown risk for which it has not received a premium.