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## Property & Casualty

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## ABCs of Auto Insurance

Today, most states require car owners to purchase auto insurance coverage. Whether you already have auto insurance or are considering buying some, you may be wondering how much is enough and which types of coverage you need. Here are a few tips to get you started.

### A is for auto policy

When you purchase auto insurance, you enter into a written contract with your insurance company. The contract states that you agree to pay a certain amount of money (the premium) and that the insurer agrees to provide a certain dollar amount of protection (coverage limits) for a specified amount of time. Read this policy carefully when you get it, and ask your insurance agent to clarify any terms and conditions that you don't understand. And remember to review your policy periodically. Your life will change, and so will your coverage needs.

### B is for bodily injury coverage

Bodily injury and property damage make up the portion of your policy known as liability coverage. This is mandatory in most states. If you cause an accident, you may be liable for some or all of the damages. Liability coverage protects you from potential lawsuits by providing coverage to individual(s) injured as a result of your negligence. The amount of protection (coverage) that you choose, beyond state requirements, is up to you. In many states, you can purchase as little as \$20,000 per injured person and \$40,000 per accident. However, this may not be enough to adequately protect you. For instance, if you own a home or have any other valuable assets, you'll want to protect those assets by choosing higher limits. Frequently recommended limits are \$100,000 per injured person and \$300,000 per accident.

### C is for collision and comprehensive

Collision, as the name implies, covers your auto when it strikes an object (e.g., a tree or a telephone pole). Comprehensive covers your auto against other physical damage that is not covered by collision (e.g., fire and theft). Although these coverages are optional under state insurance laws, that doesn't mean you should forgo them. Collision and comprehensive can be valuable because they can limit your out-of-pocket expenses.

But if your car has a low resale value (e.g., under \$1,000), having collision and comprehensive coverage may not make sense--the premium cost may not be worth it if you can afford to pay for repairs yourself. However, keep in mind that dropping these coverages is not always up to you. If you finance your car, your lender may require you to carry collision and comprehensive coverage.

### D is for deductible

Think of your deductible as self-insurance. It's the amount of money that you're willing to pay out of your own pocket if there's an accident. You can save money on your premiums by choosing a higher deductible, but watch out--if you get into an accident, you'll need to come up with that amount before your insurance pays a dime.

For example, say you choose a \$1,000 deductible. You get into a minor accident, and the damages total \$950. You'll end up footing the entire repair bill, because your insurer pays for damage only above and beyond your deductible amount. But if your deductible was lower, say \$500, you would have to come up with only that amount--your insurer would pay the remaining part of the bill, in this case \$450.

### E is for exclusions

Exclusions are why it's so important for you to read your auto policy. Most people purchase open peril or unnamed peril policies. These policies cover all risks, except those listed in the exclusions section of your policy.

For example, insurers do not cover "willful and wanton misconduct." This is conduct that is intentional and reckless or in disregard of the law. You don't want to find yourself in an exclusionary situation, because you'll be left to pay the bills--both yours and those of anyone you injure.

## **F is for filing a claim**

You've been in an accident--now what? You need to notify your insurer. Your insurer will have you fill out an incident report in which you state what happened in the accident. You may also need to give a recorded statement to the adjuster. If you file a claim for property damage, you'll need to get an appraisal. Some insurers will send an appraiser to you, while others require you to come to them. If you are injured, your insurer will require you to have a physical exam. In general, you can see your own doctor, but the insurer may also ask that you see a doctor of its choosing.

Most insurance policies contain a clause regarding late notice. If you fail to notify your insurer of the accident in a timely manner, the company can disclaim coverage. This means that the insurer will not pay. What is considered late notice? This question continues to be battled out in courtrooms across the United States, so if you are planning to file a claim, the best advice is to notify your insurer as soon as possible.

## Understanding Your Personal Automobile Policy

Let's be honest: Reading an auto insurance policy is no fun. After all, an insurance policy is really a legal contract. It contains a lot of dry, technical, legal language as well as jargon specific to the auto insurance industry--not exactly Saturday-afternoon leisure reading. Nonetheless, it's probably a good idea to sit down and thoroughly read your policy. Don't wait until you have a car accident--by then, it may be too late.

### Declarations Page: where it's all spelled out

Like other insurance contracts, your policy begins with a Declarations Page. This page lists the information that is unique to your policy. It indicates the policy number and provides important information, including the policy term, coverage limits, and information about the insured. If you bought the policy for your car, you are probably the named insured. If so, the Declarations Page will contain your full name and may also contain the names of other drivers in your household, if they're covered under your policy. Also included is your complete legal address, which may differ from the address where the covered auto is principally kept. The address where the car is kept helps determine your premium, but it is your legal address to which all correspondence about the policy will be sent.

If you took out a loan to purchase your car and there is still an outstanding balance, the lender will be listed on the Declarations Page. Since your lender has a financial interest in your car, it is entitled to receive payment under your auto policy if the car is damaged, destroyed, or stolen. Consequently, information about your lender must be listed on the Declarations Page.

The Declarations Page also contains a description of the vehicle(s) covered under the policy. This description includes, for each vehicle, the year, make, model, vehicle identification number, and address where garaged. In addition, the Declarations Page indicates how each vehicle is used (e.g., driving back and forth to school or work, just around town, or sometimes for business purposes). An estimate of annual mileage may also be indicated on the Declarations Page. Your premium will be partly based on this information about your car and how it's used.

If you elected to purchase one or more endorsements to expand and/or restrict the coverage under your policy, these endorsements will be identified on the Declarations Page by name, form number, and date. The endorsements must be listed on the page in order for your insurer to provide that particular coverage. Finally, the Declarations Page shows the annual policy premium--the amount that you're paying your insurer for the insurance coverage. The total premium is a figure that results from adding up the separate premiums charged for each specific type of coverage with the limits that you've selected.

Call your insurance professional if you have any questions about this section of your policy or any other section. He or she can clarify policy provisions and coverage, and explain any terms that you don't understand.

### Another good reason to read your policy: the insuring agreement

The general agreement section of your auto policy establishes that in return for your payment of premium, the insurance company ("we") agrees to provide coverage to you as later explained in detail. It is a broad preface to the contract. The definitions section explains words and phrases used throughout the policy (e.g., "your covered auto").

### The Insurance Services Office's Personal Auto Policy Form

You may find the Insurance Services Office's Personal Auto Policy Form attached to the Declarations Page of your auto policy. This form has six main parts labeled A through F. The first four parts spell out in detail the main types of coverage provided under the policy. The fifth part tells what you must do after an accident or loss. The sixth part clarifies overall terms and rights that you and the company have in specific situations, including policy cancellation. Parts A through D are "coverage" parts, and parts E and F are "conditions."

- Part A--liability coverage: This provides protection for claims brought against an insured when the use of an insured vehicle caused bodily injury or property damage to someone else.

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Part B--medical payments coverage: This provides coverage for various medical expenses incurred by the insured and others as a result of an accident, regardless of negligence or liability on the part of the insured.

- Part C--uninsured motorists coverage: This provides coverage for losses that the insured and others sustain when injured through the negligence of an uninsured or unidentified hit-and-run motorist.
- Part D--coverage for damage to your auto: This provides coverage for losses that the insured suffers as a result of damage to his or her covered vehicle and/or its contents. This coverage consists of two parts: collision and other than collision (also known as comprehensive). Other-than-collision losses include such things as fire damage, damage caused by animals in the road, and theft.
- Part E--duties after an accident or loss: This imposes various requirements on the insured if an accident or other loss occurs. If you do not comply with the duties spelled out in this section, you may forfeit your contractual rights under the policy.
- Part F--general provisions: This specifies certain conditions that apply to the entire policy or insuring arrangement. These include provisions for fraud, bankruptcy of the insured, and cancellation of the policy, among other things.

If you've chosen any optional coverage offered by your insurer, your policy may also make reference to one or all of the following:

- Underinsured motorist coverage--mandatory in some states
- Extended transportation expenses coverage that pays higher limits than the basic limits for a rental vehicle to substitute for an insured vehicle that is out of commission
- Emergency roadside assistance coverage (towing)

## Liability Coverage under Your Personal Auto Insurance Policy

Potential liability claims are probably a big concern for you as a car owner. Consider the claims that might be brought against you for bodily injury or property damage (or both) resulting from a car accident. Adequate liability insurance coverage can protect you from the financial burdens associated with such claims.

### Why buy liability insurance?

All states have financial responsibility laws that require owners of vehicles to prove they can pay for bodily injury and property damage caused by the use of their automobile. By far, the most common way to comply with financial responsibility laws is to buy an auto insurance policy. The liability limits of the policy must at least equal the minimum limits specified by your state. Even if you can prove financial responsibility in another way (e.g., by posting a bond), you still might have reasons to purchase liability coverage. If you have any valuable assets (e.g., home, car, stock portfolio), you'll want to protect them. If you're sued, and you don't have enough insurance, a large judgment could wipe you out financially. Also, keep in mind that if you're interested in buying excess coverage (an umbrella policy), you'll need a certain amount of primary insurance first under your auto insurance and/or homeowners insurance policies (typically in the \$250,000 to \$500,000 range).

### Who is an insured?

The way in which your policy defines an insured is very important. Anyone who is an insured has some protection under that policy. If you bought the policy and you own the car, you're the named insured. But you're not the only person who may be covered by the policy. There are probably more people insured under your policy than you think (e.g., household/family members). Check out your policy for the complete list.

### Is there a limit to liability?

The liability limit is the maximum amount that the insurance company will pay for an insured loss, apart from any supplemental payments. Insurers may use one of two different methods to determine liability policy limits:

- **Single limit:** Your policy states a single dollar amount (e.g., \$100,000), and your insurer will pay all covered damages, regardless of damage type or number of parties injured, up to that limit. You'll bear the burden of any amount over that limit.
- **Split limit:** Here, you'll see numbers like 100/300/50. This means that you have \$100,000 coverage per injured person, up to a maximum of \$300,000 per accident, and \$50,000 for any property damaged in that accident. Again, you'll bear the burden of any excess damage.

The method that your insurer uses may depend on state law requirements.

### When your insurer won't pay

The exclusions section of your insurance policy specifically sets out the limitations and restrictions on the coverage provided in the policy. Under the liability portion of your policy, coverage is generally excluded in the following situations:

- Damage or injury is intentional
- There is duplicate coverage (e.g., claims covered by workers' compensation)
- Your vehicle is being used as a taxi or in a limousine service (car pool arrangements in which

expenses are shared are not excluded)

- The car is being used to participate in racing or speed contests on a track

The liability coverage of personal auto policies is quite broad, subject to certain exclusions.

Keep in mind that insurers can only calculate risks on your known vehicles. So, if you own a vehicle that is not listed on your policy, your insurer may deny coverage if you're in an accident while driving it.

## Supplementary payments

Your auto insurer will make certain payments above and beyond the policy limits for specific expenses that you incur in connection with an accident. They may include:

- Costs of defending lawsuits, including legal fees
- Bail bonds
- Appeal bonds
- Attachment bonds
- Interest on any judgments
- Expenses incurred by the insured in defending claims, including lost wages

It's important to note that there is supplemental coverage for bonds only if they are required as a result of an accident that caused bodily injury or property damage--not just for tickets or arrests for traffic violations.

## Out-of-state coverage

The out-of-state coverage provision indicates how your chosen liability limits will apply if you are involved in an accident that occurs outside of your home state. If the other state has a higher minimum liability limit for nonresidents than the amount you are insured for, your policy may be interpreted as providing that higher minimum limit. However, a conflict between the laws of your state and the state where the accident occurred may ultimately have to be resolved by the courts.

## Other insurance

The purpose of the other-insurance provision is to establish the company's responsibilities if the insured has more than one applicable policy or is driving someone else's car. In the first case, each insurance company will pay its proportionate share. In the second case, insurance on the car being driven is tapped before the driver's insurance. The driver's insurance is excess over the policy purchased by the owner of the car.

## Medical Payments Coverage

If you're like most vehicle owners, you're concerned about who will pay your medical bills if you're injured in an accident. If you have a personal auto policy, the medical payments portion of your policy pays the medical expenses incurred (up to set limits) when you or other people insured under your policy (e.g., family members) are injured in a car accident. Medical payments coverage also extends to people not insured under your policy if they're injured while they're passengers in your car.

### How it all began

Historically, insurers have been reluctant to pay for treatment before determining which driver caused the accident. The purpose of medical payments coverage is to pay medical providers immediately for medical treatment related to auto accident injuries, without waiting to see who is at fault and ultimately liable.

### How it all works

Medical payments coverage typically pays reasonable and related expenses (e.g., doctors, physical therapists, home health aides) resulting from injuries sustained in a motor vehicle accident. Benefits are limited to the amount of coverage that you select on your policy.

It's important to note that medical payments coverage is provided for a limited period of time, typically one to three years from the date of injury. Insurance companies impose time limits on medical payments for a couple of reasons: (1) the insurer wants to know what the total payments will be in a reasonable amount of time, and (2) after a number of years, it may become difficult to determine whether the treatment requested is for the covered injury or for a later-occurring injury that is not covered. These time limits help insurers prevent fraudulent claims.

### Who is an insured?

The way in which your insurance policy defines an insured is very important. Anyone who is an insured has some protection under that policy. If you bought the policy and own the car, you're the named insured. But you're not the only person who may be covered by the policy. Family members are covered while occupying your car (occupying includes getting in and out of it) and if they're struck by another car when they're walking. Other people are covered while they're occupying your car, but not as pedestrians.

### What's not covered?

The exclusions section of your insurance policy specifically sets out the limitations and restrictions on the coverage provided. Generally, exclusions are meant to avoid duplication with other, more suitable insurance coverage; to reinforce that the policy is for personal rather than business risks; and to eliminate coverage for certain specific high-risk events and activities.

As a result, medical payments coverage generally will not cover you for bodily injuries sustained while using a vehicle for business purposes--commercial policies are better suited for that type of coverage. Also, your auto insurer is likely to deny a medical payment for a workplace injury. Workers' compensation is better suited to cover such losses.

### Not your standard risks

There are some vehicles and activities that your insurer won't cover. So, if someone is injured and incurs medical bills as a result, it's likely that they won't be covered. Some of these exclusions pertain to:

- Unlawful use: Anyone who uses your vehicle without a reasonable belief that they are entitled to do so

is not covered (e.g., when a thief or joyrider steals your car).

- Vehicles with fewer than four wheels: Typical policies won't provide coverage for any injuries you sustain while occupying a vehicle with fewer than four wheels. Vehicles such as motorcycles present additional risks that your policy doesn't intend to cover. You can purchase additional insurance to cover these types of risks.

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Vehicles located for use as a residence or premises: If you are injured in the equivalent of someone's house, your auto insurance isn't really the best place to look for payment. A homeowners insurance claim may be more appropriate. For example, coverage is excluded if you are injured in a trailer that has been set up as a campsite.

- Autos not listed on the policy: Insurers can calculate risks only on your known vehicles. If a vehicle is not listed on your policy's Declarations Page, injuries sustained while using it will not be covered. This exception doesn't apply to you (or your spouse) if you're in a vehicle that is owned by a different family member.
- Racing: You guessed it--no coverage when you compete in, practice, or prepare for any prearranged or organized racing or speed contest. If you're a race-car driver, you should purchase insurance that is designed to cover the obvious risks of race-car driving.

## Beyond the unexpected

Your policy may also exclude medical payments coverage for catastrophic events that cause bodily injury. If such an event occurs, it's likely that the resulting claims would wipe out an insurance company's financial resources. They include:

- Discharge of a nuclear weapon, a nuclear reaction, radiation, or radioactive contamination
- War
- Insurrection
- Rebellion or revolution

## Limit of liability

Your policy is not an unlimited source of funds for you to draw on in case of an accident. There are limits to how much medical payments coverage your insurer will provide. The liability limits are listed on the Declarations Page of your policy. Dollar amounts will vary, but they're typically \$5,000 or \$10,000. This limit is the maximum amount of medical payments that will be made by the insurance company, per person, for any one accident. You can usually purchase higher limits rather economically.

## Other insurance

If you have two policies providing medical payments coverage, each policy will pay its proportional share of total coverage. If you're injured while occupying someone else's car, your policy will pay (up to its limits) only those medical expenses you incur that exceed the coverage provided by the policy covering the car you were occupying.

## Uninsured/Underinsured Motorist Coverage

Even though almost every state requires its motorists to have auto insurance, many people drive without it. So if you're a car owner, you should be concerned about having an accident with an uninsured motorist. Fortunately, your own personal auto policy already has you covered. The uninsured motorist (UM) coverage section is designed to cover you for injuries sustained in an auto accident that's caused by another driver who is either completely uninsured or has less than the minimum insurance required by state law. UM coverage also protects you when you're the victim of a hit-and-run accident where the owner or driver of the other vehicle can't be identified.

### What's covered

If you're in an accident with an uninsured motorist, your policy's collision coverage will pay for the repair bills to your own car. However, you'll have to pay your deductible. In some states, you can purchase uninsured motorist property damage coverage, which usually carries a lower deductible than collision coverage and thus can minimize your out-of-pocket expenses if you're involved in an accident with an at-fault uninsured motorist.

Generally, your insurance company will pay bodily injury claims associated with a UM accident if:

- The injured individuals making the claims are considered insured parties under your policy; such insured parties include you, your spouse, family members who live with you, and any guests who were in the car at the time of the accident
- The insured parties are seeking compensatory damages for bodily injury (reimbursement for medical expenses and lost wages)
- The owner or operator of the uninsured vehicle caused the accident through negligence
- The injured parties are, in the opinion of the insurer, legally entitled to recover compensatory damages from the negligent uninsured party

An "uninsured motor vehicle" is a land motor vehicle or trailer of any type for which:

- No bodily injury liability bond or policy applies at the time of the accident
- There is bodily injury coverage, but in an amount less than that required by state law
- There is bodily injury coverage at the time of the accident, but the insurance company either denies coverage or becomes insolvent
- No operator or owner can be identified after a hit-and-run accident

To ensure that there's no confusion (and perhaps to limit fraudulent claims), some vehicles are specifically excluded from classification as uninsured motor vehicles. They are vehicles:

- Owned by you or a family member and uninsured
- Owned or operated by a self-insurer, except one who is or becomes insolvent
- Owned by the government
- Operated on rails or crawler treads, like railroad cars or bulldozers
- Designed for off-road use and being used off-road at the time of the accident

- Being used as a residence or premises, such as a trailer parked at a campsite

## What's excluded from coverage

Your insurer may exclude certain losses from your UM coverage. Most significantly, the agreement covers only compensatory damages (reimbursement for medical bills and lost wages); it doesn't cover damages for pain and suffering or punitive damages. If you have an accident involving an uninsured driver while you're in your own uninsured vehicle (one that's not listed on your insurance policy), your policy won't give you any UM protection. If you're using your car as a taxi or as a delivery van, transporting people or goods for a fee, you (and your passengers) aren't covered in the event of an accident with an uninsured motorist. This exclusion does not apply to car pool arrangements in which expenses are shared. If you sustain injuries that would be covered under a workers' compensation claim, a disability insurance claim, or any other policy claim, you'll get no UM coverage, as it would be duplicative. Finally, you'll get no UM compensation if you or your lawyer settles the bodily injury claim without the consent of your insurance company.

The Declarations Page of your policy will spell out the limits of your UM coverage. The limit is usually the maximum that the insurance company will pay for any one accident, regardless of how many insureds are involved, how many claims are made, or how many vehicles were involved in the accident.

## When there's disagreement over coverage

If you and your insurer can't agree on if or how much you're entitled to recover under the UM section of your policy, the policy's arbitration clause allows you to use outside arbitrators to settle your dispute. Under a typical arbitration clause, each party (you and the insurer) selects an arbitrator; the two arbitrators then select a third. Each party pays the expenses of the arbitrator he or she has chosen, and the expenses of the third arbitrator are shared equally.

Arbitration is limited to deciding whether the insured is legally entitled to recover damages, and the amount of those damages. Under many clauses, the decision is binding only if the arbitrators decide that you're entitled to an amount equal to or less than the minimum amount of insurance you're required to have by your state. If the arbitrators decide that you're entitled to damages that exceed your state's minimum insurance requirement, the decision isn't binding, and either party may demand a trial within 60 days of the arbitrators' decision.

## What about underinsured motorist coverage?

If vehicles insured under policies with less than the state's minimum liability limits are considered uninsured, then what are underinsured vehicles? Whether a vehicle is considered underinsured depends on what you decided to buy for this part of your own policy. An underinsured motor vehicle is defined as one covered by bodily injury liability insurance limits that are:

- Equal to or higher than the state minimums
- Less than the limit of another person's underinsured motorist coverage

The way this coverage works depends on state law. In some states, for example, if you carry underinsured motorist coverage with a limit of \$100,000 and are not at fault in an accident with a person who has a bodily injury limit of \$50,000, your own policy may cover you for any damages you suffer over \$50,000 up to \$100,000. (In this case, if your underinsured motorist limit were \$25,000, you wouldn't be able to collect under it, because your coverage would be less than that of the other person.) In other states, it doesn't matter what your limits are for underinsured motorist coverage relative to the coverage of the other party. As long as you have any coverage, it will be available to you if your damages exceed the other party's liability limits.

## Policy Options

Did you know that you can tailor your personal auto policy coverage to your specific needs? Aside from any state-required minimum liability limits and from any requirements of a lender concerning coverage on the car itself, you can select the type and amounts of coverage you'd like and can afford. Here are some tips to help you choose the right policy for your situation.

### How long will it last? Choosing the policy period

Auto policies are typically in effect for one year, but you may be able to purchase auto insurance for longer or shorter policy periods. For the most part, your premiums should be slightly lower when you purchase a policy with a longer policy period, since the insurer can spread out the administrative costs of writing the policy over a longer period of time.

### Calling it quits

You can cancel your auto policy at any time before the policy's expiration date. However, you'll probably need to prove that you no longer need to carry auto liability insurance by showing a receipt for surrendered license plates. If you still have a registered vehicle on the road, cancellation is unlikely to be an option for you. Usually, insurance companies impose penalties for early cancellation. Instead of refunding your premium on a pure pro rata basis (1 day equals 1/365 of the annual premium), a short-rate basis will apply. This means that the company will keep extra premium to cover its expenses for writing and servicing the policy for the time it was in effect. For details concerning rights of cancellation, read the cancellation language in the General Provisions part of your policy.

### Paying your premium

Most insurers give you three options for paying your insurance premium:

- Pay the entire annual premium upfront
- Make a down payment on the premium (typically 30 percent) and then divide the remainder into monthly installments
- Pay an equal monthly amount for 10 or 12 months

Each method has advantages and disadvantages. For example, paying the entire amount upfront might be financially impossible for you. And while a payment plan may be more manageable, most insurers will charge you interest or a service fee in order to do so (although some insurers will waive their service fee if you have multiple policies with them).

### When your spare is flat, get help just like that

One relatively inexpensive option you can add to your auto policy provides coverage for emergency road service and towing. Under this option, the insurer will pay towing and labor costs incurred each time your car is disabled, up to the limit indicated for this coverage (usually in the range of \$25 to \$75). This coverage is available whenever your vehicle breaks down and is not limited to accidents covered under your physical damage coverage.

Keep in mind that the insurer will pay only for labor (e.g., changing a tire or jump-starting your car) performed at the place where your vehicle is disabled, not for any repair work done at a service station.

## When your coach turns back into a pumpkin . . .

If you carry collision and other-than-collision (also known as comprehensive) coverage on your car, you probably have coverage up to a limited amount for the cost of substitute transportation if your car is unusable due to an accident or theft. Typical limits for this coverage are \$15 per day, subject to a maximum of \$450. Purchase of extended transportation expenses coverage may increase both your per-day and total limits for this coverage. Under both basic and extended coverage, your vehicle must be unavailable for more than 24 hours before you can collect, and you can't collect for a period of time longer than what is reasonably required to repair your vehicle.

## No-Fault Insurance

In most states, insurance companies make payments based on each person's degree of fault in a particular motor vehicle accident. However, other states have adopted some form of a no-fault system of insurance. To find out whether your state operates under a no-fault system, read your auto insurance policy (Personal Injury Protection is often the heading for the part of a policy that provides no-fault coverage), or consult your insurance agent.

### How does no-fault insurance work?

No-fault insurance provides that your own insurance company will pay medical bills you incur due to an auto accident, regardless of who or what caused the accident. In most no-fault states, your company will also pay to replace your lost income, for someone to perform essential services you can no longer perform (e.g., cleaning, cooking), for funeral expenses (in worst-case scenarios), and for benefits to your survivors. The idea is to speed fair payments and avoid costly litigation. It is thought that lower auto insurance premiums should result from a lower incidence of lawsuits.

### Pure no-fault

Under a pure no-fault system, your insurer would pay for any monetary damages (e.g., medical bills, lost wages) up to the policy limit, and you would be completely prohibited from suing a negligent driver for nonmonetary damages (e.g., pain and suffering, loss of companionship). Currently, no states function under a pure no-fault system.

### Modified no-fault

Most of the no-fault states have adopted a modified no-fault system. This means that your insurer still pays for your covered monetary damages up to your policy's limit, but you may be allowed to sue for nonmonetary damages if your bills exceed a specified amount. This amount varies from state to state. Other states won't allow you to bring a lawsuit unless their definition of a serious injury (e.g., broken bones, severed limbs) is met. These definitions establish a verbal rather than a monetary threshold.

### What is choice no-fault?

Choice no-fault (versions of which have been implemented in Pennsylvania, Kentucky, and New Jersey) is another hybrid of the pure no-fault system. Under this plan, you can choose whether you want to give up your right to sue for damages (similar to a pure no-fault plan) or retain some of your rights to sue for damages (similar to a modified no-fault plan). If you choose the latter option, your right to sue is limited. If you have an accident with a driver who has opted for the pure no-fault option, you won't be able to sue that driver.

## State-by-State Minimum Coverage Requirements

All states have financial responsibility laws that either explicitly or in effect require you to purchase at least some auto insurance. Although coverage requirements vary from state to state, you will typically need to buy some level of liability coverage. Other types of auto insurance coverage may be optional or required, depending on the state in which you live.

### Auto insurance coverage: the basics

Auto insurance coverage is typically broken down into separate components:

- **Liability coverage:** This provides protection for claims made against an insured, where the use of an insured vehicle caused bodily injury or property damage to someone else
- **Medical payments coverage or personal injury protection:** This provides coverage for various medical expenses incurred by the insured and others as a result of an accident, regardless of negligence or liability on the part of the insured
- **Collision coverage:** This provides coverage for losses that the insured suffers as a result of damage to his or her covered vehicle caused by a collision
- **Other-than-collision (also known as comprehensive) coverage:** This provides coverage for losses that the insured suffers as a result of damage to or loss of a covered vehicle not caused by a collision (e.g., fire, theft, vandalism, falling objects, explosion, earthquake, flood, and civil commotion)
- **Uninsured motorist coverage:** This provides coverage for losses that the insured and others sustain when injured through the negligence of an uninsured or unidentified hit-and-run motorist
- **Underinsured motorist coverage:** This provides coverage for losses that the insured and others sustain when injured through the negligence of a motorist who has liability insurance, but the limit of that insurance is insufficient to pay for damages

### State-by-state minimum coverage requirements

The following table provides up-to-date information on each state's minimum coverage requirements. The first two figures refer to bodily injury liability limits, and the third figure refers to the property damage liability limit. For example, 20/40/10 means coverage up to \$20,000 for each person injured in an accident, up to a maximum of \$40,000 for the entire accident, and \$10,000 worth of coverage for property damage. The state minimums are based on the most current information available. You should check your specific state requirements to verify these figures.

State	Type(s) of Coverage Required	Minimum Liability Limits
AL	Bodily Injury and Property Damage Liability	25/50/25
AK	Bodily Injury and Property Damage Liability	50/100/25
AZ	Bodily Injury and Property Damage Liability	15/30/10
AR	Bodily Injury and Property Damage Liability	25/50/25
CA	Bodily Injury and Property Damage Liability	15/30/5
CO	Bodily Injury and Property Damage Liability	25/50/15
CT	Bodily Injury and Property Damage Liability, Uninsured/Underinsured Motorist	20/40/10

DE	Bodily Injury and Property Damage Liability, Personal Injury Protection	15/30/10
DC	Bodily Injury and Property Damage Liability, Uninsured Motorist	25/50/10
FL	Property Damage Liability, Personal Injury Protection	10/20/10
GA	Bodily Injury and Property Damage Liability	25/50/25
HI	Bodily Injury and Property Damage Liability, Personal Injury Protection	20/40/10
ID	Bodily Injury and Property Damage Liability	25/50/15
IL	Bodily Injury and Property Damage Liability, Uninsured Motorist	20/40/15
IN	Bodily Injury and Property Damage Liability	25/50/10
IA	Bodily Injury and Property Damage Liability	20/40/15
KS	Bodily Injury and Property Damage Liability, Personal Injury Protection, Uninsured Motorist	25/50/10
KY	Bodily Injury and Property Damage Liability, Personal Injury Protection	25/50/10
LA	Bodily Injury and Property Damage Liability	15/30/25
ME	Bodily Injury and Property Damage Liability, Uninsured/Underinsured Motorist	50/100/25
MD	Bodily Injury and Property Damage Liability, Personal Injury Protection, Uninsured Motorist	20/40/15
MA	Bodily Injury and Property Damage Liability, Personal Injury Protection, Uninsured Motorist	20/40/5
MI	Bodily Injury and Property Damage Liability, Personal Injury Protection	20/40/10
MN	Bodily Injury and Property Damage Liability, Personal Injury Protection, Uninsured/Underinsured Motorist	30/60/10
MS	Bodily Injury and Property Damage Liability	25/50/25
MO	Bodily Injury and Property Damage Liability, Uninsured Motorist	25/50/10
MT	Bodily Injury and Property Damage Liability	25/50/10
NE	Bodily Injury and Property Damage Liability	25/50/25
NV	Bodily Injury and Property Damage Liability	15/30/10
NH	Financial Responsibility Only, Uninsured Motorist	25/50/25
NJ	Bodily Injury and Property Damage Liability (Standard Limits Shown), Personal Injury Protection, Uninsured Motorist	15/30/5
NM	Bodily Injury and Property Damage Liability	25/50/10
NY	Bodily Injury and Property Damage Liability, Personal Injury Protection, Uninsured Motorist	25/50/10
NC	Bodily Injury and Property Damage Liability	30/60/25
ND	Bodily Injury and Property Damage Liability, Personal Injury Protection, Uninsured Motorist	25/50/25
OH	Bodily Injury and Property Damage Liability	12.5/25/7.5
OK	Bodily Injury and Property Damage Liability	25/50/25

OR	Bodily Injury and Property Damage Liability, Personal Injury Protection, Uninsured Motorist	25/50/10
PA	Bodily Injury and Property Damage Liability, Personal Injury Protection	15/30/5
RI	Bodily Injury and Property Damage Liability, Uninsured Motorist	25/50/25
SC	Bodily Injury and Property Damage Liability, Uninsured Motorist	25/50/25
SD	Bodily Injury and Property Damage Liability, Uninsured Motorist	25/50/25
TN	Bodily Injury and Property Damage Liability	25/50/15
TX	Bodily Injury and Property Damage Liability	25/50/25
UT	Bodily Injury and Property Damage Liability, Personal Injury Protection	25/65/15
VT	Bodily Injury and Property Damage Liability, Uninsured/Underinsured Motorist	25/50/10
VA	Bodily Injury and Property Damage Liability, Uninsured Motorist	25/50/20
WA	Bodily Injury and Property Damage Liability	25/50/10
WV	Bodily Injury and Property Damage Liability, Uninsured Motorist	20/40/10
WI	Financial Responsibility Only, Uninsured Motorist	50/100/15
WY	Bodily Injury and Property Damage Liability	25/50/20

### Is the minimum coverage required enough coverage?

Keep in mind that the figures given in the preceding table represent only required minimums. In many cases, it will be in your best interest to purchase coverage above and beyond the minimums (including collision and other than collision) so that you're adequately protected. With bodily injury liability, for instance, most insurance professionals recommend that your coverage limits be at least \$100,000 per person and \$300,000 per accident.

## How Much Auto Insurance Coverage Do You Need?

All states have financial responsibility laws that either explicitly or in effect require you to purchase at least some auto insurance. However, there is often a large gap between the amount of coverage you're required to have and the amount of coverage you really need. Even in states with the most stringent requirements, many insurance professionals suggest that you have a broader scope of coverage (i.e., more types) than what the state mandates, and that your coverage limits in most areas exceed the required state minimums.

### The basics

Auto insurance coverage is typically broken down into component parts, each providing a different type of protection. These types of coverage may be optional or required, depending on the state in which you live:

- **Liability coverage:** This provides protection for claims made against an insured, where the use of an insured vehicle caused bodily injury or property damage to someone else

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**Medical payments or personal injury protection:** This provides coverage for various medical expenses incurred by the insured and others as a result of an accident, regardless of negligence or liability on the part of the insured

- **Collision:** This provides coverage for losses the insured suffers as a result of damage to his or her covered vehicle caused by a collision
- **Other than collision (also known as comprehensive):** This provides coverage for losses the insured suffers as a result of damage to or loss of a covered vehicle not caused by a collision (e.g., fire, theft, vandalism, falling objects, explosion, earthquake, flood, civil commotion)
- **Uninsured motorist (UM):** This provides coverage for losses the insured and others sustain when injured through the negligence of an uninsured or unidentified hit-and-run motorist
- **Underinsured motorist (UIM):** This provides coverage for injuries the insured and others sustain when injured through the negligence of an underinsured driver

Aside from any state requirements, determining the amount of auto insurance coverage you need is a balancing act. You'll need to weigh how much coverage you need against what you can afford, your ability to weather any financial risk (e.g., lawsuits), and whether you have assets that you need to protect. However, there are some general guidelines you can follow.

### Liability coverage

When you injure or kill someone in an accident, bodily injury claims for medical bills, lost income, and pain and suffering can easily amount to hundreds of thousands of dollars. Property damage claims can also be costly. For example, suppose you caused severe damage to someone else's expensive, brand-new car or struck and damaged a telephone pole. Would you be covered for the damages you caused?

In most states, the required minimum liability coverage doesn't come close to covering the costs associated with a serious accident. That means you could have to pay part of the claim out of your own pocket if you're sued. This is particularly dangerous if you have a home and other large assets to protect. So it may be in your best interest to carry both bodily injury and property damage liability coverages well beyond state minimums.

Keep in mind, however, that you shouldn't buy more insurance than you can afford. And if you don't have significant assets to protect, the minimum auto insurance coverage required by your state's laws (or by your lender) may be sufficient.

## Medical payments coverage

If you and your family have good health insurance coverage, you might think that medical payments coverage is unnecessary. It's important to note, however, that your health insurance won't cover anyone outside of your family, while medical payments coverage often will cover anyone who is a passenger in your car.

In states that require medical payments coverage, you may not need to purchase more than your state's minimum coverage requirement. However, you can usually purchase additional medical payments coverage for only a small increase in your premium. And even if medical payments coverage is optional in your state, you may want to buy at least a small amount of coverage.

## Collision and other-than-collision coverage

In most states, both collision and other-than-collision coverage are optional. If you are still paying off a car loan, the lender will no doubt insist that you carry both. But if you don't have either of these types of coverage and your car is stolen or damaged, you will have to pay for the vehicle's repair or replacement out of your own pocket (unless the accident was caused by another driver and you can prove it).

Keep in mind, though, that both collision and other-than-collision coverage are subject to deductibles and generally only provide coverage up to the actual cash value of your vehicle. Having collision or comprehensive coverage on older, less valuable vehicles may not be cost effective, since any claim payment you'd receive would be minimal and might not exceed what you pay in premiums and deductibles. Ask your insurer or agent to look up the book value of your car to help you decide.

## Uninsured motorist and underinsured motorist coverage

Even though both UM and UIM coverage are optional in some states, the number of uninsured and underinsured motorists on the road makes these types of coverage extremely important. You probably want to purchase some level of UM and UIM coverage. Otherwise, you might have no recourse against a driver who doesn't have adequate auto insurance or has no auto insurance at all.

## Lawsuits: What Every Driver Needs to Know

Legal battles often bring new meaning to the word stress. Knowing what to expect is half the battle of getting through the process. Although you may be one of the fortunate few who've never been a party to a lawsuit, that could change. Should you find yourself in this position, here are a few things you'll want to know.

### What are the chances you'll see the inside of a courtroom?

Whether you're the plaintiff (the party that brings the lawsuit) or the defendant (the party that's being sued), don't assume that you'll have your day in court. It's quite likely your case will settle early in the pretrial phase. In fact, nearly 90 percent of all cases settle before trial to avoid costly and time-consuming litigation.

### The plaintiff's case

As the plaintiff, you'd have the burden of filing the complaint and proving your case. The complaint is the document that begins a lawsuit—it tells the court what you intend to prove at trial. The burden of proof in a civil case is "a preponderance of the evidence" (51 percent). Although your burden is much lighter than the prosecution's burden in a criminal case (beyond a reasonable doubt), you will still have your work cut out for you. Even though you do have the right to represent yourself, you should consider consulting or hiring an experienced attorney.

### Don't take the law into your own hands

If your case is small (e.g., \$1,000) and you can't afford an attorney, you may be able to bring your case to small-claims court. Your eligibility will be based on the subject (e.g., real estate, property damage) and value of your case.

Small-claims court is also known as the people's court. Much like the television show of the same name, ordinary people tell their case to a judge, who then makes a decision after hearing from both sides and seeing all the evidence. Although attorneys generally aren't prohibited from small-claims court, their participation isn't encouraged. The purpose of small-claims court is to provide a speedy and inexpensive place to resolve the less-complicated, lower-value cases. Remember, though, that as the plaintiff, you chose the forum (small-claims court), and if you lose, you may not be allowed to appeal.

### You've been sued . . . now what?

If you're involved in an accident, and someone is injured or property is damaged, you may find yourself defending a lawsuit. Whether or not you're at fault, you need to act. If you're served with court papers that say you're being sued (summons and complaint), don't just ignore them, thinking that the lawsuit will go away. The complaint needs to be answered within the time period stated on the summons (this differs from state to state). You'll probably need an attorney, so be sure to contact your insurance company as soon as possible, since your insurance company will often pay your legal defense costs.

### Who is your attorney?

If your insurer takes over your defense, you may still have a choice in selecting the attorney who will defend you. However, this will depend on the type of insurance coverage that you've selected. Typically, you'll be assigned counsel by your insurer. Some companies have their own in-house counsel to represent insureds, while other companies retain private law firms on a case-by-case basis.

You're also entitled to retain your own attorney (at your own cost), in addition to the attorney appointed by your insurer. Some of the reasons why you might want two attorneys are:

- Any claims not covered by your insurance (e.g., intentional acts) won't be defended by the assigned attorney

- Plaintiff's damages may be greater than the amount of insurance you have--you'll be responsible for the excess

- You may feel more comfortable having your own attorney on hand

Keep in mind that litigation can be very expensive, and the attorneys assigned by your insurer tend to specialize in insurance defense, so additional counsel is often unnecessary.

## You're the star of the show

It's important to keep in mind that your cooperation is essential to winning your case. And, even more important, if you don't participate when you're needed, your insurer may be able to deny coverage. If that's the case and the court rules against you, the money will end up coming out of your pocket.

## The endless search

After your attorney has answered the plaintiff's complaint, the next step is to complete discovery (the fact-finding part of the case). This is probably the biggest and most important part of the case, because you'll find out how strong the plaintiff's case is in comparison to yours, and whether there is a possibility for settlement.

Depositions are one method of discovery. As a party to the lawsuit, you're likely to be deposed. Typically, attorneys will depose all parties and relevant witnesses. In general, depositions take place in the office of one of the attorneys. All of the attorneys will be present, and a stenographer will be there to record everything that is said (the plaintiff may or may not be present). Also, you'll be asked to testify under oath about what happened in the accident. Your attorney will want to prepare you before the deposition. Pay attention--this is sure to be good advice.

In addition to depositions, you'll be asked to provide answers to interrogatories (written questions) and respond to document requests. Some states limit the amount of information you'll need to provide. Give the information to your attorney and let your attorney deliver it to the plaintiff. Remember, if you have an attorney, neither the plaintiff nor the plaintiff's attorney is allowed to contact you directly, and vice versa. All communication should go only through the attorneys.

## On with the show

If settlement negotiations are unsuccessful, the case will proceed to either a jury trial or a bench trial (the judge decides who wins). This will depend largely in part on which state you live in. Also, you'll probably be called to testify (similar to the deposition, except you'll be in the courtroom) on the witness stand.

## Tax Planning Tips: Auto Insurance

It's no secret that auto insurance can safeguard your assets and provide you with peace of mind. But did you know that auto insurance may also benefit you at tax time? Certain insurance-related costs can be deducted on your individual federal income tax return. You'll need to know what can be deducted, and how insurance reimbursements can affect those deductions.

### **You can't deduct your auto insurance premiums if you use your car only for personal purposes**

If you use your motor vehicle only for personal purposes (like most people), you can't deduct your auto insurance premiums on your tax return.

### **If you use your car for business purposes, you may be able to deduct some car-related expenses, including insurance premiums**

Whether you're self-employed or an employee, you may be able to deduct certain car-related expenses if you use your car for business purposes. However, if you use your car on business and your employer fully reimburses you for your expenses, you can't deduct those expenses. If you use your car for both personal and business reasons, you can deduct only that portion of your car expenses that can be traced to business use. (For individual taxpayers, commuting to work normally doesn't qualify as business use.)

At tax time, you take your deduction as a miscellaneous itemized deduction. Miscellaneous itemized deductions are deductible only to the extent that they total more than 2 percent of your adjusted gross income (AGI). So, if 2 percent of your AGI equals \$2,000 and your total miscellaneous itemized deductions (including business-related auto expenses) only come to \$1,900, you won't be able to deduct your auto expenses on your tax return.

There are two methods for calculating auto expense deductions--the standard mileage allowance and the actual expenses method:

- **Standard mileage allowance:** If you own or lease a car and are not reimbursed for the business use of your vehicle, you may be able to calculate your deduction using the standard mileage rate (50 cents per business mile for 2010, down from 55 cents per business mile for 2009). Several requirements apply, however. You can also deduct the cost of business-related tolls and parking (but not commuting-related tolls and parking).
- **Actual expenses method:** You may be able to deduct the actual cost of using your vehicle for business. Your business expenses can include depreciation, tolls, parking fees, insurance premiums, repairs, gas and oil, rental fees, lease fees, excise taxes, and garage rental fees (to the extent that the costs were related to business and not your personal use).

No matter which method you use, the IRS requires that you keep careful records of your business travel, including the dates you used your car, the number of miles driven, and the reason for the travel on business-related tasks.

### **If your car is stolen or damaged, you may be able to claim a theft or casualty loss deduction**

If your car is stolen, damaged, or destroyed in an accident or by an act of nature (e.g., fallen tree, flood), you may be able to claim a theft or casualty loss tax deduction if your auto insurance coverage does not completely reimburse you for your loss. (A casualty is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual.)

For individual taxpayers, the casualty and theft deduction is an itemized deduction that is subject to two limitations. First of all, you can't deduct the first \$100 of any loss. So, if your \$99 used radio is stolen from your car, you're out of luck (at least in terms of a deduction). Second, even if your loss exceeds \$100, you can only deduct casualty and theft losses if the total amount you lost in the year (after the \$100 per casualty threshold) exceeds 10 percent of your AGI.

You must file federal Form 1040 and itemize your deductions on Schedule A to claim a casualty or theft loss deduction. Use Form 4684 to figure the amount of your deduction, and consult a tax professional if you need help.

If you're reimbursed for your loss, you must subtract the reimbursement when calculating your loss. In other words, you do not have a casualty or theft loss to the extent you are reimbursed. If your property is covered by insurance, you should file a timely insurance claim for reimbursement of your loss. Otherwise, you may not be able to deduct your loss. Generally, you must also file a police report for any theft losses.

### **What about auto insurance deductibles?**

Auto insurance protection does not begin until the deductible has been satisfied. So, if you have an auto insurance policy with a \$500 collision deductible and you get into an accident, you'd have to cover the first \$500 of your loss out of pocket. At tax time, though, this deductible may be written off on your tax return (subject to the \$100 and 10 percent rules) as a casualty loss if you meet all necessary requirements. However, you can't deduct a casualty loss involving a car accident if your willful negligence or willful act caused the accident.

## Opening the Door to Homeowners Insurance

Your home is your castle, so the saying goes. And you're going to want to protect it. Homeowners insurance can give you just the protection you need. It provides coverage if your home is damaged or destroyed. It also covers your family's possessions and provides you with compensation for liability claims, medical expenses, and other expenditures that result from property damage and bodily injury suffered by others.

### Why you need it

You may need homeowners insurance because your mortgage lender requires it. But even if you own your home outright, you still need homeowners insurance to protect that which you can't afford to lose. It's really that simple. After all, you've spent years building up a solid financial foundation for you and your family. Without homeowners insurance, all of that hard work can go down the drain in a matter of minutes when, for example, a tornado devastates your house, a burglar robs and vandalizes your home, your dog bites and severely injures your neighbor, or your mail carrier slips on your front steps and breaks his leg.

### Property coverage

The main purpose of homeowners insurance is to protect your home and other structures, like a shed or detached garage. Your policy will cover not only the cost of the damage (the exact amount depends on your policy) but also your living expenses (up to a limit) while you wait for your home to be repaired.

In addition to protecting your home, the typical homeowners policy covers your personal property, both on and off premises. Your personal property consists of the contents inside your home (e.g., furniture, appliances, clothing, jewelry) as well as outdoor items (e.g., sporting equipment, lawn tools). It's important to note that homeowners policies set specific dollar limits for certain types of personal property (e.g., jewelry, coins).

Although policies vary, a typical homeowners policy provides coverage for damage to property caused by:

- Fire and lightning
- Windstorm and hail
- Explosions
- Theft or vandalism
- Vehicles
- Smoke
- Falling objects
- Weight of ice, snow, and sleet
- Freezing of plumbing, heating, or air conditioning system
- Riots

But be aware that homeowners insurance does not cover a wide variety of perils (e.g., flood, earthquake damage). You may need to purchase an endorsement or separate insurance policy to ensure adequate coverage in these instances.

When reimbursing you for a loss, insurance companies use one of two methods to determine the value of

property:

- Replacement cost: This pays you the cost of replacing damaged property, with no deduction for depreciation, but with a maximum dollar amount
- Actual cash value: This pays you an amount equal to the replacement value of damaged property minus a depreciation allowance

Keep in mind that before an insurance company reimburses you for a loss, you'll need to satisfy a deductible.

## Liability coverage

In addition to insuring your property, the typical homeowners policy includes liability protection that provides coverage for damages caused by your negligence. Medical payments to third parties and your legal costs for any lawsuits brought against you are also included. Most homeowners policies provide a standard amount of liability coverage (usually \$100,000) per accident.

## Purchasing homeowners insurance

Homeowners insurance policies are written individually, typically at the time you purchase a home or when you take out a mortgage on a home. For the most part, you'll want to purchase enough property coverage to cover the replacement cost of your home and its contents. The amount of liability coverage you'll need to purchase will depend on the assets you would like to protect (e.g., home, car, investments).

The cost of homeowners insurance depends on the amount of your coverage, any endorsements you add to the policy, and policy deductibles. But since premiums for similar policies vary from company to company, it pays to shop around and compare rates.

## Understanding Your Homeowners Policy

Reading a homeowners insurance policy for the first time can be intimidating. With all the jargon, exclusions, and conditions you'll encounter, you may start thinking that Mom was right--you should have gone to law school after all. Nevertheless, all homeowners policies share certain common elements and follow a recognizable design. Once you understand the roadmap, you'll be able to make sense of the provisions and locate key information when you need it.

### What does homeowners insurance cover?

A homeowners insurance policy protects you from certain home-related property and liability risks. It covers your home, other structures on your property, and your personal possessions (e.g., furniture, jewelry, clothing, stereo equipment) if damaged, destroyed, or stolen. If other people suffer bodily injury or property damage through your negligence, your homeowners policy may also cover their liability claims, medical expenses, and other damages.

### Overview of your homeowners policy

Your homeowners policy consists mainly of preprinted pages--it's pretty much a standard form. There are six different types of policy forms: HO-1, HO-2, HO-3, HO-4, HO-6, and HO-8. These forms provide identical liability coverage, but differ regarding the extent of property coverage and the type of home involved (i.e., house, apartment, condominium, or cooperative). Check your policy: The HO designation should appear on every page of your policy, usually near the bottom right corner.

Although your homeowners policy will be much more detailed, it will probably follow this general format:

- Declarations Page
- Definitions
- Section I (property insurance)
- Section II (liability insurance)

### The Declarations Page identifies the basic terms of the contract

Although most of your policy will be preprinted, the Declarations Page of your policy (usually the first page) presents information unique to your situation. This page will summarize your coverage. However, you must still read your policy in full to understand the details of your coverage. The Declarations Page should contain the following items:

- Policy number
- Policy period (beginning and end dates of coverage)
- Name and address of the primary insured (usually you and your spouse, if married)
- Name and address of your insurance agent
- Location of the insured premises (usually by street address)
- Mortgagee's name and address (i.e., the bank or mortgage company that holds your home loan)
- Coverage limits for each coverage type

- Deductible amount
- Premium amount
- The title or number of any endorsements affecting the policy

## The definitions part explains important terms

As you might expect, the definitions part of your policy defines terms and explains important concepts contained in the policy. Take the time to read these over; some terms will probably turn out to be more broad (or perhaps more restrictive) than you would have guessed. Pay especially close attention to the definition of insured and insured location.

## Section I deals with property coverage

Section I of your policy describes what is and isn't covered by the property provisions of your homeowners policy. It explains the types of property coverages, lists the specific perils that you're insured against (such as damage caused by fire, theft, and hail), describes the exclusions from coverage, and details any conditions that you must meet for coverage to apply.

There are basically four categories of property coverage:

- Coverage of your dwelling
- Coverage of other structures on your property
- Coverage of your personal property
- Coverage for the loss of use of your property

If an instance of damage, injury, theft, or expense falls within one of these categories, you'll be covered by your policy as long as you've met the conditions of your policy and no exclusions apply. Qualifying for coverage under the policy means that your insurance company will reimburse you for your financial loss, up to your coverage limit. You can increase your coverage limits by paying higher premiums.

You should be aware that homeowners insurance does not cover certain perils (e.g., flood and earthquake damage). So, you may need to purchase an endorsement or a separate insurance policy to obtain broadened coverage.

## Section II involves liability coverage

Like Section I, Section II of your policy describes types of coverages, exclusions from coverage, and conditions that must be satisfied. Here, the focus is on personal liability and medical payments to others. You're covered for certain bodily injuries and property damages suffered by others in connection with your property. For example, you'll probably be covered if your guest is injured when she slips and falls on your walkway, a neighbor gets bitten by your dog, or your barbecue fire rages out of control and starts a fire next door. Most homeowners policies provide a standard amount of liability coverage (usually \$100,000) per occurrence.

Along with the payment of damages, your insurance company may defend you (at its expense) if you're sued for property damage or bodily injury. In addition, your insurance company may pay the necessary medical expenses (for three years) of anyone injured on or through your property. Injuries caused by you, your pet, or another insured may also be covered.

However, make sure that you understand the exclusions from coverage. For instance, you probably won't be covered for intentional injury or damage, nor for a claim arising out of your business or profession.

## How much will your insurance company pay if there's a loss?

Your policy contains a paragraph describing the amount you can expect to receive from your insurance company if a covered property loss occurs. The most common options for calculating payments are the following:

- Replacement cost: This is the amount needed to replace or rebuild your property or repair damages using similar materials to what you had before. There's usually a maximum dollar amount. (By paying a higher premium, you may be able to obtain guaranteed replacement cost coverage, which does not specify a maximum dollar amount.)

- Actual cash value: This is the amount needed to replace or rebuild your property, less depreciation. Typically, personal property will be reimbursed at actual cash value.

The calculation method depends on the type of property (home or personal property) and the type of dwelling. Keep in mind that you'll need to satisfy a deductible (i.e., pay a certain amount out of pocket) before your insurance company will reimburse you for a loss.

## Read your policy carefully and ask questions

Read your policy--don't just put it away in a file cabinet until it's needed. You should understand your rights and responsibilities before a loss occurs. If any part of your policy is unclear, ask your insurance agent about it as soon as possible.

## How Much Homeowners Insurance Coverage Should You Have?

Homeowners insurance provides three-pronged coverage. First, it covers damage to your home (the dwelling itself). Second, it provides coverage for your personal property, both on and off the premises. Third, it provides liability protection for damages caused by your negligence. And although your mortgage lender will likely require you to have sufficient homeowners insurance to cover its interest in the property, you may need additional coverage to adequately protect yourself.

### Property coverage--your home

To determine the level of property coverage you should have on your home, you'll need to find out how much it would cost to rebuild it, since the cost of rebuilding a home is often higher than the price initially paid for it. An insurance agent can help you calculate the current cost of construction for a home like yours, or you can hire a professional appraiser.

It's important not to mistake market value or taxable value for the amount for which you should insure your home. For example, assume you own a 2,000-square-foot home that has a taxable value of \$125,000 and would cost \$70 per square foot to rebuild. The total cost to rebuild your home would be \$140,000. If you were insured only for your home's taxable value, you'd have a \$15,000 deficit.

### Property coverage--your personal property

Standard homeowners insurance policies typically cover your personal property at 50 percent of the value of your home. Certain items (e.g., jewelry) are covered up to a specific dollar amount. However, this standard level of coverage may not be sufficient to cover the replacement of your property.

Ideally, you want enough insurance coverage to replace your possessions if they were destroyed or stolen. If the value of your possessions is more than 50 percent of the value of your home, you can buy additional coverage through riders and/or endorsements.

To determine how much personal property coverage you need, start by making an inventory of all of your home's contents. List the serial number, date, and cost of purchase. Be sure to include any receipts, if possible. To make things easier, you may want to use a video camera or take photos.

### Liability coverage

The standard amount of liability coverage in a homeowners policy is \$100,000, and the policy provides coverage for liability claims, medical payments to third parties, and legal costs for any lawsuits brought against you. The amount of liability coverage you should have depends on the assets you would like to protect (e.g., home, car, investments).

It's important to periodically review your homeowners coverage to make sure that it's in keeping with any major purchases or additions to your home. For convenience, you may want to add an inflation-guard endorsement to your policy, which instructs the insurance company to automatically raise your policy limit (no doubt this will also increase your premium) at each policy renewal, according to a predetermined index of local home values.

## Liability Insurance under Your Homeowners Policy

Are you covered by insurance if your dog bites a neighbor? How about if your tree falls on a neighbor's fence? And what if you're sued when someone slips and falls on your front walk? You can find the answers to these and other questions in the liability section of your homeowners policy.

The second part of your homeowners policy focuses on liability. Here, you're covered for bodily injury and property damage suffered by others in connection with your property. There are two types of liability coverage: personal liability coverage and medical payment coverage. You should understand the types of coverages, the exclusions from coverage, and the conditions that must be satisfied before liability coverage applies.

### Personal liability coverage pays damages to people injured by you or your property

Most homeowners policies provide a standard amount of liability coverage (usually \$100,000) per occurrence, but you may be able to increase this amount. If you or another insured are found responsible for someone else's bodily injury or property damage, your personal liability coverage may kick in and pay the damages. If an injured or damaged person brings a lawsuit, your insurance company may also pay to defend you or any other insured named in the lawsuit. You should note, though, that you're typically covered only for negligence (carelessness); you aren't covered for intentional injuries and damage.

The liability part of your homeowners insurance covers you both at home and away. It also covers those family members who live with you. It protects you against many types of accidents and occurrences, including slip-and-fall injuries on your property, dog bites to the letter carrier, and damage done to your neighbor's siding by your son's baseball. Read your policy carefully to find out what's covered.

### Medical payments coverage pays an injured party's medical bills

If all conditions are met and no exclusions apply, your insurance company will pay the necessary medical expenses (for up to three years) of someone injured on or through your property. This coverage doesn't apply to your own medical expenses and the medical expenses of your household residents, except for your household employees. Injuries that take place away from your premises are also covered, as long as you, another insured, a household employee, or your pet caused the injury.

Medical expenses may include reasonable charges for medical, surgical, X-ray, dental, ambulance, hospital, and professional nursing services, as well as prosthetic devices and funeral services.

### What about exclusions from coverage and conditions of coverage?

The liability insurance section of your homeowners policy also contains an exclusions section that denies or precludes coverage in specific instances. These exclusions are listed and described. For example, your homeowners policy won't cover damages caused by your car. In addition, liability coverage doesn't apply to injuries or damages arising from business or professional activities (including those related to a home office), to injuries or damages intentionally caused by you, or to injuries suffered by members of your household.

Your insurance policy will also list the conditions you must satisfy before coverage will kick in. For instance, you'll probably be required to provide written notice to your insurance company of any covered occurrences. You'll also be obligated to promptly forward any notice, demand, or summons related to a claim.

Make sure you read all exclusions and conditions carefully. If you don't understand a particular point, ask your insurance agent.

## **If you need more liability protection, consider a personal umbrella liability policy**

If you need more liability protection than your homeowners policy offers, consider purchasing a personal umbrella liability policy. This type of policy can significantly expand your liability coverage by providing a liability limit above that contained in your homeowners policy. Without adequate liability protection, a large judgment against you could cost you your assets, as well as your potential future earnings and inheritances. Most insurers who write home insurance policies also sell personal umbrella liability policies.

## Mold: Are You Covered?

"Deadly mold invades home!" While this may sound like something out of a horror movie, many homeowners are concerned about health risks associated with infestations of toxic mold. And the insurance industry isn't taking the mold issue lightly either. Some insurers are excluding or limiting coverage, raising premiums, or even refusing to write policies in areas at high risk for mold-related claims.

### What exactly is toxic mold?

Toxic molds are living organisms whose spores emit certain mycotoxins (toxic substances) or poisons. The toxic mold that has led to a dramatic increase in homeowners insurance claims and garnered a lot of media attention goes by the name of *Stachybotrys chartarum* or black mold. *Stachybotrys chartarum* has been found in all 50 states. Leaky plumbing, leaking roofs, and burst pipes can create the humid conditions conducive to the growth of mold. Even energy-efficient construction practices can contribute to mold growth--tight seals and insulation can make it difficult to get rid of moisture that is trapped in a building.

### Is toxic mold dangerous?

Some researchers say that the presence of particular strains of toxic mold in a home, like *Stachybotrys chartarum*, can cause serious medical problems. There have been reports of individuals suffering pulmonary hemorrhage and memory loss as a result of toxic mold infestation in a home. However, according to the Centers for Disease Control (CDC), a causal link between toxic mold and these types of conditions has never been established.

That's not to say that mold can't have detrimental effects on one's health. Even mold that does not contain mycotoxins has been linked to respiratory ailments such as asthma and hay fever in certain sensitive individuals. And in addition to medical problems, a mold infestation can lead to a condition known as "dry rot," which if left untreated can result in severe structural damage to a home.

### Is mold damage covered by homeowners insurance?

Most homeowners insurance policies (HO-3) specifically exclude damage caused by mold from coverage--unless the damage is the result of a covered peril (e.g., burst pipes) that fostered the growth of the mold. Under a standard policy, mold damage that results from a noncovered peril (e.g., a slow leak from a pipe or roof) is considered a home maintenance problem and is thus excluded from coverage.

Insurance companies have reacted differently to the influx of toxic mold claims. Some insurers have begun to exclude coverage for any type of mold damage, regardless of whether it is the result of a covered peril. Others have decided to cover mold damage resulting from a covered peril, but only up to a certain limit (e.g., \$10,000). If you have questions about mold coverage under your homeowners policy, contact your agent or insurer for more information.

### How have mold damage claims affected homeowners insurance premiums?

Many companies that offer homeowners insurance have also begun to raise their premiums in response to the rise in mold damage claims. In fact, states that have had a significant number of mold claims, such as Texas, Florida, and California, have seen a dramatic increase in homeowners insurance premiums, making it difficult for many homeowners to obtain affordable coverage. Some insurers have even stopped writing new policies, or have refused to renew existing policies, in states where mold-related claims are prevalent.

## How do you know if your home has mold?

According to the CDC, you probably have a large mold infestation if you've seen or smelled mold in your home. If you suspect a problem, you may also want to check the following areas for mold growth:

- The backs of dry wall, wallpaper, or paneling
- The tops of ceiling tiles
- Roofing materials that are above ceiling tiles
- Walls behind furniture
- Inside ductwork
- Underneath carpets
- Inside walls that surround pipes

## What to do if your home has mold

Regardless of whether the mold you have in your home is toxic, experts suggest that you remove it as soon as possible. Mold can grow in a short period of time--usually within 24 to 48 hours. The CDC states that most mold growth can be removed by thoroughly cleaning the affected area with a solution of bleach and water. However, some items that have mold damage (e.g., carpets, insulation, and wallboards) may need to be removed and replaced.

There are cases where a mold infestation is so large that a homeowner may not be able to handle the cleanup on his or her own. In these cases, it may be necessary for the homeowner to seek professional help from a mold removal and remediation company that specializes in the removal of mold growth.

## Mold prevention

Mold problems usually are the result of water or moisture buildup in the home. Although you can never get rid of all mold or mold spores in your home, the key to preventing mold problems is to keep any wetness under control.

- Keep the humidity level in your home low--use an air conditioner or dehumidifier if necessary; fix the source of the water problem (e.g., leaky plumbing)
- Make sure your home has adequate ventilation (e.g., exhaust fans in the bathroom)
- 

Whenever possible, use mold-killing products when cleaning your house (e.g., bathroom cleansers with bleach)

- Use mold inhibitors in paints
- Do not install carpet in humid/wet areas (e.g., bathrooms, basements)
- Dry any water-damaged areas/items within 24 to 48 hours to prevent mold growth

## Umbrella Liability Insurance

When your local weather forecaster tells you that it's going to rain, what do you do? That's easy--you reach for your umbrella. So why not purchase an umbrella that can protect you in stormy financial weather? Umbrella liability insurance (ULI) can do just that. By providing liability protection above and beyond the basic coverage that homeowners/renters and auto insurance policies offer, ULI can protect you against the catastrophic losses that can occur if you are sued.

Although ULI can be purchased as a separate policy, your insurer will require that you have basic liability coverage (i.e., homeowners/renters insurance, auto insurance, or both) before you can purchase an umbrella liability policy. ULI is often referred to as excess coverage. If you are found to be legally responsible for injuring someone or damaging someone's property, the umbrella policy will either pay for the part of the claim in excess of the limits of your basic liability policy, or pay for certain losses that are not covered.

### Why now? It's not even raining

These days, it's not unusual to hear of \$2 million, \$10 million, and even \$20 million court judgments against individuals. If someone is injured in your home, or if you cause a serious auto accident, you could have to pay such a judgment. If you don't have an umbrella liability policy at the time of the accident, anything above the limits of your homeowners/renters or auto insurance policy will have to come out of your pocket.

Here's an example of how ULI works to protect you. Say you have an auto insurance policy with a liability limit of \$100,000 per accident. You also have a \$1 million umbrella liability policy. You're later found responsible for a serious automobile accident, and the court finds you liable for \$700,000 in damages. In this case, your auto insurance would pay the first \$100,000 of the judgment, which would satisfy the deductible under your umbrella policy. Your umbrella policy would then cover the portion of the judgment not covered by your auto insurance (\$600,000).

You should also be aware that certain types of liability claims (e.g., libel and slander) are not covered under basic homeowners, auto, or other types of insurance policies. An endorsement can be added to these policies to provide some protection against these types of personal injury claims. Or, you can purchase ULI, which does cover these claims.

### What's covered?

A typical umbrella liability policy provides the following protection, up to the coverage limits specified in the policy:

- Protection for claims of bodily injuries or property damage caused by you, members of your household, or hazards on your property, for which you are found legally liable
- Personal liability coverage for incidents that occur on or off your property
- Additional protection above your basic auto policy for auto-related liabilities
- Protection against non-business-related personal injury claims, such as slander, libel, wrongful eviction, and false arrest
- Legal defense costs for a covered loss, including lawyers' fees and associated court costs

### What's not covered?

Umbrella liability insurance typically provides extremely broad coverage. Furthermore, if something is not expressly excluded from coverage, it is covered. Exclusions vary from one insurer to another and from one policy to another, but the following are some items typically excluded from coverage:

- Intentional damage caused by you or a member of your family or household
- Damages arising out of business or professional pursuits
- Liability that you accept under the terms of a contract or agreement
- Liability related to the ownership, maintenance, and use of aircraft, nontraditional watercraft (e.g., jet skis, air boats), and most recreational vehicles
- Damage to property owned, used, or maintained by you (the insured)
- Damage covered under a workers' compensation policy
- Liability arising as a result of war or insurrection

## How big of an umbrella are we talking about?

Determining how much liability coverage you need is not an exact science. You might think that you need only enough liability insurance to protect your assets, but a large judgment against you could easily wipe out your assets and put your future earnings in jeopardy. That's why you should also consider factors such as how often you have guests in your home, whether you operate a home-based business, how much you drive, whether you have teenage drivers in your home, and whether your lifestyle gives the impression that you have "deep pockets."

Coverage limits vary, but a typical policy will provide liability coverage worth \$1 million to \$10 million. Of course, as your coverage limit increases, the premium will also increase. You need to decide both how much insurance you need and how much insurance you can afford. You'll want to have enough protection, but not too much. Look at it this way: Have you ever seen a five-year-old child walking under a big golf umbrella or a 300 lb. football player using a pocket-sized umbrella? One has too much protection and the other not enough. Your insurance agent can help you determine how much coverage you need.

## Where can I buy an umbrella liability policy?

Almost any insurer who writes auto and home insurance policies will also sell umbrella liability policies. In fact, you may be eligible for a multipolicy discount if you purchase an umbrella policy from your current insurer. Of course, it's important to shop around and make sure that you're getting the right coverage for your needs and the most coverage for your money. If you want to do some research on your own, try surfing the Internet, where you can get price quotes and answers to your questions in an instant.

## When You Apply for Insurance, Your Credit History Counts

Did you know that insurance companies typically consider your credit history, whether positive or negative, when you apply for auto or homeowners insurance? Insurers may use your credit information when deciding whether to approve your insurance application and when determining the premium you'll pay.

### Why does your credit history matter when you apply for insurance?

Studies by independent researchers and insurance industry actuaries have convinced insurance companies that a strong correlation exists between your credit history and the likelihood that you'll file an insurance claim. Using information contained in your credit record, an insurer calculates your insurance score. If your insurance score is low, the insurer may consider you to be less of a risk than if your insurance score is high.

### How is your insurance score determined?

Although methods vary, an insurance company typically calculates your insurance score by applying a mathematical formula to statistically significant factors on your credit record. These factors may include the amount of debt you have outstanding, whether you have serious blemishes on your credit report (such as past-due amounts, collection actions, and bankruptcies), and the number of times you've applied for credit within the past year.

### Will a low insurance score prevent you from buying insurance?

Not necessarily. Because your insurance score is generally just one of the factors insurers use to decide whether or not to offer you coverage, an insurer may decide to approve your application even if you have poor credit. However, a low insurance score often places you in a higher risk category, and you may end up paying a higher premium for insurance.

Keep in mind, too, that every insurance company has its own underwriting standards. Even if one insurance company rejects your application due to poor credit, another insurance company may issue you a policy.

### What if you have little or no credit history?

In many states, having little or no credit history automatically places you into the "average" risk category. Other states prohibit insurers from even using credit as an underwriting factor if you have little or no credit history.

### Can your insurer cancel or refuse to renew your insurance based on your credit?

In many states, an insurer can cancel or refuse to renew your insurance policy if your credit has deteriorated. However, some states have passed legislation prohibiting insurers from using your credit report as the sole basis for making decisions about cancellations and renewals.

### Is there anything you should do?

Insurers must tell you if they look at your credit history when they consider your insurance application or when they determine the rate you'll pay for insurance. To find out if your credit history has affected your ability to get insurance or your insurance premium, contact an insurance company representative. Here are some other things you can do:

- Since laws vary from state to state, contact your state's insurance department if you have questions about the regulation of credit-based insurance scoring in your state.
- Know your rights. Under the Fair Credit Reporting Act, insurers must inform you that they've turned down your insurance application based on information in your credit report, and notify you that you have a right to request a free copy of that credit report.
- Shop around for insurance coverage. Different insurers have different policies regarding the use of insurance scores. The cost of insurance premiums may also vary, so comparison shop for the best deal.
- Check your credit report once a year. Order copies from the three major credit bureaus (Experian, Equifax, and Trans Union) and make sure they contain correct information. Dispute any errors with both your creditors and the credit bureaus.
- Ask your insurance company to rerun your credit score if you feel that doing so would improve your insurance rating (many states allow consumers to request this once per year). But check insurance regulations in your state first--some states allow insurers to take adverse action against current customers based on downturns in their credit scores.



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