In the case of Israel v. State Farm Mutual Automobile Insurance Company, David Israel filed a lawsuit against State Farm following an automobile accident that resulted in the death of his wife and injuries to himself. State Farm had issued a personal umbrella policy to Israel's parents, which defined "insured" to include relatives residing in the household, thereby qualifying Israel for coverage. The primary issue was the maximum potential damages under the policy, with State Farm asserting a limit of $400,000, while Israel argued it should be $1 million. The court ultimately determined that the maximum possible recovery was $600,000, granting State Farm's motion for summary judgment in part and denying it in part.

The umbrella policy included Coverage U for incidents involving uninsured motor vehicles, with a limit of $1 million, contingent upon maintaining underlying uninsured/underinsured motorist coverage. Although Israel had not maintained the required underlying insurance, the court found ambiguities in the policy that favored coverage. The retained limit clause indicated that State Farm would pay only the amount exceeding the retained limit, which included the $400,000 already paid by the at-fault driver’s insurance. The court concluded that State Farm's liability was not further reduced by the $200,000 in underlying coverage that Israel was required to maintain but did not have at the time of the accident.

Additionally, the court addressed whether Israel's wife, Susan, could be considered an "insured" for separate policy calculations. It ruled that she was not an insured as she did not reside in the Gunther household, thus the policy's separate application clause did not apply to her. The court emphasized that the policy's language clearly defined "insured" and did not extend to passengers, reinforcing that State Farm's liability calculations were based solely on David Israel's status as an insured. Consequently, the court's interpretation of the policy provisions led to the conclusion that State Farm's maximum exposure was $600,000, factoring in amounts already compensated from other sources.

The insurance policy does not automatically adjust the retained limit to include any required underlying coverage that was not purchased. Specifically, the retained limit for Coverage U is defined as the total amount received for a loss from the liable party plus any amount from the underlying coverage, but it will not be less than the required underlying coverage amount. Therefore, if the required coverage is not purchased, the retained limit will still reflect the required amount, leaving an injured party without compensation for that amount if no other coverage is available. State Farm contended that because the required underlying limits were not maintained, the plaintiff should be responsible for the underlying limit amount of any loss, which they claimed should reduce any potential payment by $200,000. However, this argument overlooked that the underlying limit for this specific loss had already been satisfied by a payment of $400,000 from Root’s insurance company, exceeding the required $200,000 limit. Thus, the plaintiff had no further responsibility, and State Farm's potential liability remained unchanged. Ultimately, State Farm's maximum liability to the plaintiff is capped at $600,000, as the retained limit of $400,000 (from Root’s payment) is deducted from the Coverage U limit of $1 million, and the retained limit is not increased or further reduced by the amount of underlying insurance that should have been maintained. The court granted in part and denied in part the motion for summary judgment.