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## Will your homeowners' insurance replace your entire home?

When purchasing homeowners' insurance, you can have your home, and its contents, insured by one of two methods: *replacement cost* or *actual cash value*.

### What is *replacement cost*?

Replacement cost refers to the amount it would cost to replace or rebuild your home using materials of a similar kind and quality, without deducting for depreciation (the decrease in value because of age). If you have adequate replacement cost coverage, your home will be replaced or repaired to its prior status.

### What does *actual cash value* mean?

If your property or contents are insured on an actual cash value basis, the insurance company will only pay you what the damaged item(s) is worth after subtracting depreciation.

### What happens if I don't carry enough insurance coverage on my home?

Many insurance companies require you to insure your home for at least 80% of its replacement cost. If your home is insured for less than 80%, the insurance company may assess a "penalty" and only pay for part of a loss.

### What factors contribute to my home not being insured for at least 80% of its replacement cost?

Making improvements to your home, such as finishing a basement, upgrading a bathroom or kitchen, or adding a patio or deck, can increase the replacement cost of your home. Increases in the cost of building materials, labor rates, energy costs, and inflation can add significantly to replacement costs.

### Isn't it better to insure my home to 100% of replacement value?

Yes, absolutely. You may also want to talk with your insurance agent about guaranteed and extended replacement cost coverage, ordinance or law coverage, and automatic inflation guard coverage.

### How can I maintain adequate coverage?

If you've made changes or improvements to your home, are unsure of what loss cost valuation method your policy contains, or are simply concerned about having and maintaining adequate coverage, you should contact your agent and request a coverage analysis.

