
Replacement-cost coverage: a wise investment

I just bought a home and would like to insure it against damage or destruction. How can I be sure I will be financially able to repair or rebuild in the event of a catastrophe, such as a fire?

Insurers generally recommend you insure your home for its full replacement cost, which means it is insured under a homeowners policy for 100 percent of the cost of repairing or rebuilding it at the time this becomes necessary. If you purchase a guaranteed replacement-cost endorsement, you would receive the full amount you need to rebuild, regardless of inflation.

Most insurers require you to insure your home for at least 80 percent of its replacement cost to receive full coverage on a partial loss. It is wise, however, to insure your home for its full replacement cost; insuring it for less could prove quite expensive should you incur a major or total loss.

If there is a fire in my living room, will my homeowners or renters insurance automatically pay for the full cost of replacing my furniture?

No. Unless you have replacement-cost coverage on your personal property and possessions, your furniture is insured only for its actual cash value, which is its replacement cost at the time of loss, minus depreciation of its value and any deductible applying to your policy. So, that sofa and love seat you bought three years ago for \$1,200 might only have a depreciated value of \$700 now. Your insurance company will only pay you the \$700 (less your deductible, of course) for new furniture, even if those items cost you \$1,400 today to replace.

If you have replacement-cost coverage on your personal property and possessions, you would receive the \$1,400, or whatever it costs to replace the furniture with that of equal value (less your deductible, of course).

Replacement-cost coverage protects you from both depreciation and inflation. It usually is available at a nominal charge in addition to your homeowners or renters insurance and is well worth the investment.

What isn't covered under most homeowners and renters insurance policies?

The following items usually are not covered: motor vehicles; commercial buildings on your property or buildings you rent or lease to others except a private garage; pet injuries or damage to your property caused by your pets. Jewelry, coin collections, silverware, furs and other valuables (that are particularly vulnerable to theft) are covered up to a specified limit.

Special riders or endorsements often can be added to your insurance policy to cover some of these items.

Additionally, many homeowners and renters policies do not cover perils such as nuclear accidents, earthquakes, war, floods, mud slides and certain acts of God.

How do I determine the replacement cost of my home and belongings?

As your professional insurance agent, we can help you with this. We have information and the necessary tools, including multiple types of questionnaires and personal inventory forms that can help you determine the replacement value of your home and possessions. Together we can then select the best coverage for you.

We can review your policy with you on an annual basis to assure it is kept up to date and adequate to meet your needs.

continued



Your Professional Insurance Agent ... We want you to know about the insurance you're buying.

Is the replacement cost the same as the price I paid for the house?

Not necessarily. When you purchased your house, you also purchased the land the house is on. Your homeowners insurance does not provide coverage for the land. Also, if you do suffer a total loss of your house, included

in the replacement cost are items you would not normally think of such as excavation costs and architect fees. When your house originally was built, the contractor probably built more than one house at a time and took advantage of the economies of scale. And, the increased volume allowed the builder to purchase many of the necessary materials at a lower rate. When your home needs to be re-built, your builder will not have that luxury,

so the cost for materials could be greater. Also, as mentioned earlier, excavation costs now are involved, before a new home can be re-built, the old one must be demolished and removed. These are just a couple of reasons for the difference between replacement cost and purchase price. Contact our agency for further information.