

How does Replacement Cost Provision better protect your home?

For most purchasing a home is not only a great achievement, but a major investment. It goes to reason that you'll want to fully protect this big investment. When insuring your home, it's important to realize 'Market Value' and 'Replacement Cost' are two different concepts and are calculated using different criteria:

- **Market Value** is the estimated price at which your property would be sold on the open market between a buyer and a seller at an arm's length transaction.
- **Replacement Cost** is the cost to rebuild your dwelling at current rebuilding cost using skilled labor and using the same quality materials and construction.

Your home should be insured for Replacement Cost, not Market Value. In addition to that, extended replacement cost endorsements can be an important coverage to make sure you have enough to rebuild after a disaster. Let's illustrate this:

You have an insurance policy with \$500,000 of property coverage.

SCENARIO 1 // THE "EASY" SCENARIO

Your dwelling suffered a major fire. The cost of rebuilding your home is \$500,000. Your homeowners policy would afford you up to \$500,000 to rebuild your home.



SCENARIO 2 // THE "COMPLICATED" SCENARIO

Your dwelling and surrounding area was affected by a hurricane in October. The cost of rebuilding your home is now \$625,000. The rebuilding cost has now increased due to a larger area being affected from the storm, which also substantially impacted supply and demand for building materials and labor. Your homeowners policy would afford you up to \$500,000.

So, how do you address this risk of underinsurance at claim time? Insurance carriers offer:

- **Extended Replacement Cost endorsements.** They are often offered at 125% or 150% of the replacement cost of the home. Unfortunately, many people think of this as an excuse to reduce the insurance on their home. In reality, these are tools to sit on top of your insurance in case a disaster raises the costs of construction.
- **Guaranteed Replacement Cost endorsements.** These, usually offered by higher-end carriers who will often appraise each house they write to ensure that the value is accurate. After that, the replacement cost for a covered loss is guaranteed.