



Home Replacement Cost vs. Actual Cash Value

Homeowners Education

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Replacement Cost and Actual Cash Value refer to how your homeowner's insurance policy reimburses you for property damage after a covered loss. While both types of coverage help with rebuilding your home or replacing damaged items after a covered loss, actual cash value policies are based on the item's depreciated value, while replacement cost coverage does not account for depreciation.

Coverages

Actual Cash Value	Replacement Cost
determines value by taking the cost to replace your personal belongings	and helps pay to repair or replace damaged property without deducting for depreciation.
reducing that amount due to depreciation from factors such as age or wear and tear, says the Insurance Information Institute	This type of coverage may be available for your personal belongings and your home if they are damaged by a covered peril.
Personal property coverage helps pay to repair or replace your belongings if they are stolen or damaged by a covered peril, such as fire.	Personal property coverage. If you have replacement cost coverage for your personal property, your insurance will typically help cover the cost of buying a new item at today's price.
A policy that provides actual cash value coverage typically reimburses you for the depreciated value of an object. For example, if a fire damages your TV, a policy with existing cash value coverage would reimburse you for its depreciated value, which may be less than it will cost to purchase a new one.	For example, if your TV is stolen, replacement cost coverage will likely reimburse you enough to purchase a new one of a similar model and quality. Keep an inventory of your belongings and estimate what it would cost to replace them.
So, the amount you'd receive from your insurer after a covered claim may differ from the cost of replacing your belongings with new ones or rebuilding your home at today's prices.	Dwelling coverage. Most homeowners insurance policies come with replacement cost coverage for the structure of your home.
	Dwelling coverage typically helps pay to repair or rebuild your home using materials of similar quality, says the III. It generally does not consider your home's depreciation due to factors such as age. For example, if your kitchen is damaged in a fire, replacement cost coverage may help pay to replace your cabinets using materials of similar quality, whether they were 15 years old or brand new.

	<p>While you can get replacement coverage for most properties, says the III, you may need modified replacement cost coverage if you have an older home. This policy may cover the cost of rebuilding features of an older home, such as plaster walls, with alternative materials more commonly used today.</p>
	<p>It's essential to know how much it would cost to rebuild your home if necessary and keep your insurance agent updated on any upgrades you have made to the property, says the III. You may need to update the limits of your policy to keep up with your needs or building costs in your area.</p>