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FAQ Will Your Homeowners' Insurance Replace Your Entire Home?

You've heard it before – "A man's home is his castle". And, like most people, your home is also your most valuable possession. That's why it's important that, in the event your home is either destroyed or damaged, your homeowners' policy will cover 100 percent of the cost to either replace it, or repair it.

Q: What can I do to make certain I'm properly insured?

A: Under a typical homeowners' policy, your home is insured at "replacement cost", while its contents are insured at "actual cash value".

Q: What is replacement cost?

A: Replacement cost refers to the cost to rebuild your home or repair damages, using materials of a similar kind and quality, without deducting for depreciation. If you're adequately insured, your home will be replaced or repaired to its prior status. As an illustration, imagine your 10-year-old roof is completely destroyed, and would cost \$30,000 to replace. If you're adequately insured, with replacement cost coverage, even though the roof has lost half its useful life, the insurer will cover the entire cost to replace it.

Q: What happens if I don't carry enough insurance on my home and suffer a loss?

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

Q: What factors might contribute to my home not being insured to at least 80 percent of replacement cost?

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

Q: Wouldn't I be better off insuring my home to 100 percent of its replacement value?

A: Yes, absolutely.

Q: Under a standard homeowners' policy, my contents are insured on an "actual cash value" basis – What does that mean?

A: "Actual cash value" represents the depreciated value of damaged property, as a result of age, wear and tear – the insurance company will only pay you what the damaged item is actually worth when it was damaged. However, many insurance companies offer an option to insure contents at replacement cost.

Q: Are there other coverage options I can discuss with my agent?

A: Yes. Just a few would be:

- Guaranteed replacement cost coverage
- Ordinance or law coverage
- Extended replacement cost coverage
- Automatic inflation guard coverage

Q: What can I do to ensure I maintain adequate homeowners' coverage?

A: 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 as soon as possible. While making policy coverage decisions is yours – and yours alone under the law, as your independent insurance agent, I can help explain your options, so you can make informed decisions.