



Understanding Replacement Cost

When you purchased your home, you probably obtained home insurance during the closing process. But consider how much has changed since then. If you've made major renovations or repairs, or if building costs and inflation have gone up, your home may be underinsured. This means that if there is damage, you may find yourself financially responsible for a large portion of the rebuilding cost, not including the deductible.

Knowing your home's accurate replacement cost can help you avoid this problem and make sure your home is insured for what it is truly worth.



65% of Policyholders
are Underinsured



Homes are Underinsured
by an **Average of 21%**

Source: UPC Insurance (2022)

What is Replacement Cost?

Replacement cost refers to how much it would cost to rebuild or repair your entire home. This is based on the size and structure of the home and is not related to the outstanding amount of mortgage loans. Replacement cost coverage protects your home and ensures it can be rebuilt in the event of a loss, such as:

- Weather — storms, fire, wind, plumbing system freezes, and hail
- Non-weather — theft, damage from vehicles or aircraft, vandalism, and riots
- Accidental direct physical loss — tearing or bulging of heating and cooling systems, artificially generated electrical current, and water from plumbing

It's important to understand that your home's replacement cost is **NOT** the same as its market value, which is what a buyer would pay to purchase your home, including the land.

Insure Your Home at 100% of its Estimated Replacement Cost

Although you can't predict your home's exact replacement cost in the future, keeping your home insured for 100% of its current replacement cost is the best way to protect and reconstruct your home if needed. An annual review of your homeowner's insurance is pertinent to ensure that any updates you may have done are captured in the reconstruction cost.



Factors That Change Your Home's Replacement Cost Over Time

As building costs have increased over the years, reconstruction cost estimates increase too. Other changes that can affect your home's replacement cost include:

- Square footage and total number of rooms
- Construction type and exterior, as well as roof type and materials
- Home design style, architecture, and unique features
- Recent upgrades to your home
- Rate of inflation since last appraisal
- Local building costs and supply and demand of labor



Your agent is the best resource to help you determine your replacement cost. Policyholders should work with their agents to discuss their best coverage options and ensure their home is adequately covered.

Let's Take a Closer Look at...

Quality Grade — Many custom quality homes have features such as detailed/custom designs and architecture, high grade siding or roofing material, unique windows, crown moldings, high ceilings, and high-end kitchen and bathroom materials which can have a higher replacement cost. For example, a house covered in elaborate molding is going to cost more to repair or rebuild than one with simple drywall.

Inflation — No matter what your home looks like, inflation will affect you. But most insurers monitor and account for inflation each year, which is why you may see your premium change over time. That being said, you should always check that your insurer has adequately adjusted your coverage for inflation.

Keeping these factors in mind and maintaining 100% of your replacement cost estimate will help properly insure your home in the event of a loss.

Other Considerations



Replacement Cost Coverage During Storms

Getting your home appropriately insured as soon as possible is important. When an impending storm is headed toward your property, insurance companies often suspend the ability to change, add, or purchase coverage.



Home Warranty Plans

Home warranty plans should NOT be used as a replacement for homeowner's insurance. These plans assist with repairs for plumbing, electrical, and appliances, however they may have exclusions and limitations. Contract language should be read in full detail to understand coverages.



Building Materials

When building or updating your home, using stronger materials can often help to lower premiums or obtain premium discounts. The stronger your home, the more likely it is to stand up to storms and other potential damages.