Actual Cash Value vs. Replacement Cost Coverage in Homeowners Insurance

How it Works
Homeowners insurance policies offer actual cash value or replacement cost coverage to replace your damaged, stolen, or destroyed personal property.

- **Replacement cost** is what you would pay for the item at today’s cost.
- **Actual cash value** is what you would pay for a similar item at today’s cost minus depreciation (replacement cost minus depreciation).
- **Depreciation** is a decrease in value due to wear and tear or age.

Claim Scenario
Your home and some furnishings were damaged during a recent wildfire. You made a claim to your insurance company and have met your deductible. Now you are looking at replacing the damaged furnishings.

- Last year, you bought a sofa for your living room for $2,000. The amount of money you will receive to replace your sofa depends on the type of coverage you have.
  - If you have actual cash value coverage, the company might pay you $1,500 because that is the actual cash value of the sofa today (replacement cost minus depreciation).
  - If you have replacement cost coverage, the company will pay $2,100 because that is what it would cost to buy a similar sofa today.

Example
- With **actual cash value** coverage, you will receive a payment from the insurance company for $1,500.
- With **replacement cost** coverage, you will first receive a payment from the insurance company for $1,500. When you submit your receipt for the sofa, the company will pay for the difference between $1,500 and the amount you paid to replace the sofa up to $2,100.

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,100</td>
<td>Amount of the receipt for your new sofa</td>
</tr>
<tr>
<td>$1,500</td>
<td>Actual cash value of the sofa and amount sent to you by the company after you filed a claim</td>
</tr>
<tr>
<td>$600</td>
<td>Amount the company will send you after you submit a receipt for $2,100</td>
</tr>
</tbody>
</table>

*Note:* If you have replacement cost coverage, most insurance companies will give you the actual cash value of an item and require you to submit a receipt for the new item before paying you the remainder.

Texas Department of Insurance
www.tdi.texas.gov
1-800-252-3439