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The art of numbers

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In trying to determine the replacement cost of one's home typically one thinks of market value and conditions. When the real estate market is up, customers are under the impression that they need to increase their dwelling limit, and the opposite when the market is down. We often receive inquiries from mortgage brokers or real estate brokers requesting homeowner's insurance based on the "selling price." For an agent, it's a never ending battle with mortgage and real estate brokers. Market value is the price paid for your house including land. The replacement cost is the price or cost it will take to rebuild, same quality, at today's cost.

These two numbers are very much different. Insurance companies use a formula to calculate the appropriate 100% replacement cost value. This will ensure the ability to rebuild the entire house in the event of a total loss.

Modifying or adding an addition to a home or changing building codes may drastically alter the Replacement Cost value, which is why it's so important that a customer communicate periodically with their insurance agent.

With the current depressed economy, customers are looking at ways to save money and therefore requesting decreasing the replacement cost limit or eliminating coverages completely on their homeowners policies. This is a dangerous mistake. The home is one of the biggest purchase a person will make in their lifetime. The majority of one's assets are secured in a home, and in some cases the only lifetime savings they will have for their retirement. The peace of mind of having the proper insurance in place is worth much more than the few dollars one will save over the years.

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