

Almost any type of insurance policy that you purchase that has a property insurance element will either include or exclude replacement cost coverage. This article helps you understand what it is and isn't and where you may want to double check to be sure it is there for you when you need it.

Let's start with a definition of replacement cost coverage. This is essentially a valuation clause that determines how your lost or damaged property will be covered under your insurance policy. The common choices are either replacement cost or actual cash value. There is also a functional replacement cost coverage but it is rarely used. For more information about functional replacement cost, please [click here](#). Replacement cost is usually defined as the cost to replace the lost or destroyed item with a new one of like value and construction. For example, if lightning ran in on your 45 inch flat screen television, and you had replacement cost coverage on the contents on your [homeowner's insurance policy](#), then the replacement value would be what it would cost to purchase a brand new 45 inch flat screen TV. When policies don't carry replacement cost protection, then the claim is usually settled using the actual cash value of the damaged or lost item. Actual cash value is usually defined as the replacement cost of the item minus any depreciation based on the age and past use of that item.

It is important that you take the time to review your insurance policies that include coverage for property to determine if you have bought replacement cost coverage or actual cash value (ACV) coverage. The difference in the size of the claim check that you will receive after a loss can vary a great deal, depending on which of these you chose. Most [homeowners policies](#) provide replacement cost coverage on your home automatically and allow you to choose RC or ACV coverage on your contents. There may be an additional charge for the RC coverage [. Business property insurance policies](#) rarely charge extra for replacement coverage, you just need to be sure that you are carrying high enough insurance limits to avoid any [coinsurance penalties](#) that might result from your policy form.

One oddball policy when it comes to RC versus ACV coverage is [the auto insurance policy](#). If you carry collision coverage on your auto insurance, then you might have an opportunity to purchase replacement cost coverage on your newer vehicles. This form often allows you to replace your old, totaled vehicle with a brand new one even if the wrecked car is up to 5 years old. For more information about replacement cost coverage on the personal auto insurance policy, read my blog on that topic by clicking here.

If you are unsure about where you do and don't have replacement cost coverage on your insurance policies, please take a moment and pick up the phone and call your agent. This could make a huge difference in the amount you might receive after a large loss and it is always easier if your expectations more nearly match what will really happen if and when you have a large property claim.

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