

# 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 wild-fire. 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.

**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.*

## 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.

**\$2,100** = Amount of the receipt for your new sofa

**\$1,500** = Actual cash value of the sofa and amount sent to you by the company after you filed a claim

**\$600** = Amount the company will send you after you submit a receipt for \$2,100



**Texas Department of Insurance**  
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