



101 Main St. Suite 3, Cassville, MO 65625

Home Insurance 101

Everyone knows the basics of home insurance. Coverage for the house, coverage for the contents, and personal liability. But what exactly causes one policy at carrier A to be so much different priced than carrier B when the quote shows the same coverage amounts?

We all want cheaper insurance.... but what does cheaper actually cost us? Let's find out!

Breakdown:

There are different forms of how a policy will pay out the coverage to you, they are called loss settlement options. Each of them has a purpose and are not necessarily better or worse than the others.... but they can be detrimental to your out-of-pocket cost if they are used simply to shave cost.

1. Replacement Cost

This is usually the loss settlement that comes with the highest price tag but is the coverage everyone wants or assumes they have.

- Let's say your home is totaled by a fire. You will be paid the full replacement cost to rebuild the same size/shape home up to the policy limits. This is why it's critical to run the proper Estimated Replacement Cost when setting up the policy. This is where an agent vs. an online carrier can be very beneficial.
- Now what about a partial damage claim. You will be paid the same way. The full amount to repair your damaged home.

In each of these scenarios you will only be responsible for paying your deductible.

2. Repair Cost

This isn't available on all policy types or with all carriers, but it is worth mentioning. It will only be slightly cheaper than Replacement Cost.

- On a total loss, you will be paid the amount to rebuild the home up to your policy limits. Very much like the replacement cost option. \
- For a partial damage, this is way different. You will be paid based on a depreciated amount minus you deductible. Example: Your contractor gives you an estimate to repair the damage of \$20,000. Due to the age and current condition of your home you are subject to 10% depreciation. Now you also must pay your \$1500 deductible. So here is the math: $\$20,000 - (10\%) \$2000 - \$1500$ (deductible) = \$16,500. That is the amount you would be paid by your carrier.

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3. Actual Cash Value

This is typically the cheapest of all the options but has the highest out of pocket cost for you.

- Total loss situations will result in a depreciated amount and your deductible being subtracted from the loss. So, if the rebuild amount of your home is \$250,000 but the market value (appraisal) is only \$200,000. You would be given \$200,000 less your deductible.
- For a partial damage, it is the same as repair cost. You will be paid based on a depreciated amount minus your deductible. Example: Your contractor gives you an estimate to repair the damage of \$20,000. Due to the age and current condition of your home you are subject to 10% depreciation. Now you also must pay your \$1500 deductible. So here is the math: $\$20,000 - (10\%) \$2000 - \$1500$ (deductible) = \$16,500. That is the amount you would be paid by your carrier.

This just barely scrapes the surface when it comes to your Homeowners policy. We didn't even cover the actual coverage options and endorsements. But all of this can make a HUGE difference when you have a claim. Each of these loss settlements are applied to the structures as well as the contents. Some policies have separate payouts as well. The vast amount of coverage options on a home paired with these different payment schedules just affirms the need to have a good agent that understands the settlement options and can help you decide what is best for you.

Next time you are shopping insurance, keep this in mind. It can really shed some light on why carrier A is quoting \$150,000 in coverage for \$400 a year more than carrier B. There may be a significant difference in coverage that is buried a little further in the quote proposal. And now you will know what to ask about to avoid getting into a situation that saves you a few hundred now... but cost you a few thousands later.

Let us help you navigate these tricky waters. We will present you with a well-rounded quote and work with you to find the best coverage and price balance to truly fit your unique situation. Contact us today to set up a time and see why we will be the last insurance office you need...

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