

## Replacement Cost vs Actual Cash Value

### Replacement Cost Value

Replacement Cost Value (RCV) is an item at 100 percent, without the deduction of depreciation.

#### Real World Example

If the insured purchases a pair of jeans for \$50 and they are destroyed in a house fire, replacement cost will pay the insured the full amount it costs to replace the jeans with a new pair of similar kind, type, and quality.

### Actual Cash Value

Actual Cash Value (ACV) is the cost of the item minus depreciation. To put it simply, the value for which the property could be sold today.

#### Real World Example

Let's look at the pair of \$50 jeans. If you have owned them for 4 years and they are effectively at half of their life, ACV may value them at roughly \$25 if lost, damaged or destroyed.

Purchase price (\$50) – depreciation (in this case half, \$25) = \$25 payment to replace

### Depreciation

Depreciation is the loss of value from all causes such as age, wear and tear, and deterioration.

### Which Option is Best?

Like most insurance questions, it depends on the insured's situation. Actual cash value is usually the more affordable option. However, ACV may not offer enough coverage if something is damaged. The payout amount the insured receives from the carrier will likely be higher with replacement cost insurance. So, it's a typically trade-off. In short:

- ACV = Lower price
- RCV = More coverage



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