# How to calculate replacement cost insurance for your home

Replacement cost is tied to your home insurance coverage, so it's important to know the correct number. We explain three ways to get the accurate replacement cost of your home. One of the most important things to know when buying home insurance is knowing replacement cost insurance. James Brandon, owner at Hometown Roofing ATX in Austin, TX, says determining home replacement cost can be confusing. Homeowners may mistakenly think home replacement cost is the same as a home's market value. Instead, it's the cost of rebuilding the home. "Your replacement cost only covers the cost to rebuild your home. It does not factor in the mortgage, the home's market value or the land your home is built on. It's a shock to many homeowners because they see a replacement cost that's much lower than their home's market value," Brandon says.

You don't want to have an inaccurate home replacement cost on your insurance. Doing so can leave you underinsured. It's a common oversight, as about two out of every three homes in America are underinsured.

The average underinsurance amount is about 22%, though some homes are underinsured by 60% or more, according to Nationwide. Analytics firm CoreLogic found that nearly three in five American homes have insurance for an average of 20% less than full value.

On the flip side, you don't want to pay the insurance company more for coverage than you need. Using your home’s real estate value can leave you paying more for home insurance that you won’t need.

Let’s take a look at how to calculate home replacement cost value for home insurance.

# What is replacement cost?

The home replacement cost is how much it would take to rebuild your home with similar materials if it's damaged or destroyed. Replacement cost is tied to the amount of coverage you select and the amount your insurance company will pay you if you file a claim.

You will have to choose a “dwelling coverage” amount when you're shopping for a policy. You can even think of it as replacement cost insurance.

You should select a dwelling coverage amount that covers the cost to repair damage to your home or rebuild it completely at equal quality — at current prices.

You can also add extended replacement cost coverage to your dwelling coverage. Extended replacement cost adds onto your insurance coverage limits. The home insurance policy endorsement insures your home beyond the replacement cost. Instead, it provides 125% to 150% of the home's replacement cost.

Why would want an extended replacement cost policy? Inflation can make standard replacement cost insurance policies not enough.

Another type of replacement coverage is guaranteed replacement cost policy. Guaranteed replacement cost insurance pays the full cost of the home -- even if you exceed dwelling limits.

# Replacement cost or value vs. actual cash value

You should insure your home based on its replacement cost.

Here's the difference between actual cash value and replacement cost. (Read our guide on different types of home values for more information on how much your home is worth and how those other valuations affect insurance rates.)

## Actual cash value (ACV)

An actual cash value policy takes deprecation into account when calculating your payout. Depreciation can have a huge difference on a large claim.

While every insurance company has a different formula for calculating depreciation, a standard method is to determine a product’s expected lifespan and subtract a certain percentage for each year since it was purchased.

As an example, if your roof was 15 years old at the time of the claim and it had a 20-year lifespan, you will be covering most of a new roof’s cost.

The same goes for your possessions.

“If you paid $1,000 for a TV six years ago and its lifespan is 10 years, you are looking at $100 in deprecation for every year you have owned it, or $600, which means your claim check will be $400,” explains Kristofer Kirchen, president of Advanced Insurance Managers. “Now apply that same idea to everything else you own that was destroyed.”

## Replacement cost or actual cost value

Replacement value, on the other hand, will cover rebuilding costs, regardless of depreciation.

For example, if a fire destroyed your home and possessions, your homeowners insurance policy would pay to rebuild your home at current market prices, even though rebuilding costs have probably risen over the years.

The same goes for your possessions. If you had upgraded your homeowners insurance policy to replacement value on your personal possessions, you would be getting a TV of similar size and quality, regardless of the cost.

While most standard homeowners policies cover your home’s physical structure at replacement value, many assign actual cash value coverage to your personal property.

One important point of a replacement cost value policy is the 80/20 rule.

“Your single-family, primary residence must be insured to at least 80% of the property’s replacement cost,” says Patti Clement, senior vice president with the private client services division of HUB International.

If not, insurance companies may not cover the entire cost of your home.

“While 80% is the minimum requirement for replacement cost value, it is always highly recommended that our clients insure their homes for full value," says Clement.

Replacement cost claims may be paid in two installments with insurance companies paying out the actual cash value initially and then reimbursing you for the difference after repairs or you purchase a replacement item.

Many insurance companies are phasing out actual cash value when it comes to homeowners insurance, at least for the structure.

“Structure coverage at replacement value is becoming much more popular with major carriers; however, property can go either way depending on the company,” says Luke Kinton, an insurance agent in Madison, Alabama.

While it’s still possible to buy an insurance policy that covers your home’s structure at actual cash value, this can lead to some major expenses for you. If a catastrophic event destroys your home and your possessions, your share of the bill can easily run into the tens of thousands of dollars.

Pricing will vary by several factors, but, in general, expect to pay roughly 10% more to upgrade your insurance to replacement value.

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# Replacement cost value vs. market value

Market value is what your home is worth in the real estate market.

That’s usually much higher than replacement cost. Replacement cost policies takes into account only the structure. It doesn’t factor in land costs and real estate costs, such as whether it’s a corner lot or on a main street.

That’s why you shouldn’t factor in market value when gauging home insurance coverage. You may actually get much more home insurance coverage than you need if you use your home's real estate value.

You also don't want insurance for the real estate cost of your home. You may have paid hundreds of thousands more than it's replacement cost. So, avoid insuring for the cost of your home.

Instead, go with replacement cost.

# Factors that affect replacement cost insurance

Dealing with a fire or tornado’s aftermath is difficult enough without having to worry about the cost to rebuild your home. This is why carrying the right amount of home insurance is essential.

One of the most common mistakes that homeowners make is basing the replacement cost on the current market value.

“Rebuild cost is not market value and customers have a hard time accepting this,” says Kinton. “A house may sell for $250,000, but the rebuild cost may be $120,000 and the latter amount is what underwriting is going to cover.”

A home’s real estate value includes land value. The cost to rebuild your home is often much less than the current market value. However, rebuilding costs can also outpace the market value of your home, especially if it’s older.

Here are a few factors that can impact the rebuild cost:

## Age

If your home is older and has features that are hard or expensive to replicate, such as plasterwork and custom molding, or is filled with outdated plumbing and electrical, the rebuilding cost may be more than the home's current market value.

## Building codes

This mainly affects older homes. While homeowners are usually not required to upgrade their homes every time the building codes change, if your home is destroyed and needs to be rebuilt, the current building codes will apply.

Your insurance coverage levels also impact your possessions, as personal property coverage is a percentage of your insurance policy limits.

"The coverage on your personal property is about 50 to 70% of what you insure your structure," explains Carole Walker with Rocky Mountain Insurance Information Association.

The takeaway here is that your personal property may be underinsured if you don't have enough homeowners insurance on your structure.

# Home replacement cost estimator

The cost to rebuild a house calculator can be done yourself, but it takes a bit of legwork, including figuring out square footage costs in your areas.

To calculate the replacement costs, contact local homebuilders and insurance agents to determine building cost per square foot in your area and then multiply that by your home's square footage to get your insurance replacement cost.

The National Association of Home Builders estimated the average build price as between $100 and $155 per square foot. The average cost of building a new 2,000-foot home is between $201,000 and $310,000 depending on your location. The northeast has the highest average square footage costs ($155), while the south has the lowest ($100).

So, how do you calculate a home’s replacement cost value? Brandon says homeowners need to calculate these factors when using a replacement cost calculator:

- **Roofing materials** -- A local roofing professional can give you that estimate.
- **Type of flooring** -- Check with a local contractor for an estimate.
- **Exterior features** -- These include patios, outdoor kitchens, decks and pools.
- **Interior features** -- These include bathroom and kitchen fixtures and appliances and cabinets. You can get installation costs to replace those interior features if they get damaged.
- **Personal belongings** -- You’ll want to note your personal belongings to figure out what you would need to replace.

# How to find the replacement cost of home insurance

In most cases, your homeowners insurance agent will use a replacement cost calculator. “Typically, a cost estimator for the dwelling should be done by an agent,” says Kirchen.

If you're unhappy with the number or just want to verify it is correct, you can do it yourself. Options range from doing it yourself to hiring a professional appraisal.

An independent appraiser is probably the most accurate method of figuring out a home’s replacement cost value.

“An independent appraiser will actually and accurately inspect your home and knows exactly all the cost that goes into rebuilding your home. Plus, they know construction codes that go with rebuilding your home in your area,” Brandon says.

# What an independent appraiser uses to create replacement cost calculator

An independent appraiser will come to your home and give it a thorough inspection, taking photos and video of your home. In most cases, he or she will examine the following:

- Foundation and footings
- Structural framing and materials
- Roof condition and materials
- Ceiling
- Exterior walls
- Interior walls
- Plumbing and electrical fixtures, wiring and pipe systems
- Heating/cooling equipment and systems
- Interior finishes including walls, doors, cabinetry as well as built-ins and other custom touches

The appraiser will also research local market rates for construction costs, materials and labor to produce a report with your home's replacement value.

An appraisal’s price can vary dramatically between locations but expect to spend a few hundred dollars at a minimum. Also, check out Insurance.com’s home insurance cost calculator.

# Use an online insurance replacement cost calculator

While not as accurate as the do-it-yourself model, online calculators can help determine your home's replacement value for insurance. Some options are free, while others come with a fee.

"It's better if you do the calculations yourself or hire an independent appraiser simply because your home insurer determines your replacement cost based on their own software without really doing a proper inspection of your home to give an accurate estimate. A home insurance company may not be in your best interest," Brandon says.

Here are a few replacement cost estimators:

- **Craftsman Building Cost Calculator**: This tool requires you to enter information about your home and it then provides a replacement value report.
- **My Bluebook**: This site pulls up publicly available information on your home. Enter a few additional details and the site gives you a replacement value figure. In addition, you can put together a comprehensive home inventory.
- **Dwelling Cost**: You have to enter some basic information about your house as and the address to get a fairly detailed report.

Check each of the home replacement cost calculators to see which one would work best for you.

# Final tips for replacement cost coverage

The price difference between an actual cost value policy and a replacement cost policy is usually pretty affordable. It can be a financial lifesaver if you suffer a major loss.

Here are a few final tips regarding replacement value insurance:

- **Inventory**: A detailed home inventory is essential. Document all of your belongings, including serial numbers, date purchased and price paid.
- **Reevaluate yearly**: Check your insurance policy against the local building cost every year as building costs can rise dramatically from year to year. Check with your insurer about an inflation guard clause. The clause automatically adjusts your dwelling limits to reflect the latest construction costs.

- **Make a video**: Document your home's interior and exterior. Include items such as appliances, mechanicals, flooring, cabinets, roofing and any other structures on your property.
- **High-value items**: "A standard homeowners' policy has minimal coverage for jewelry, furs, silver and other high-value collectibles," advises Clement. You may need a rider for these items to be fully covered.

Choosing between actual cash value and replacement value is critical to homeowners insurance policies. Make sure you understand the pros and cons of each when you want replacement cost insurance.