"Survivors helping Survivors"

Replacement Cost Value (RCV) and Actual Cash Value (ACV)

Many policyholders misunderstand the application of the insurance terms, **Replacement Cost Value** (RCV), **Actual Cash Value** (ACV) and depreciation. Make sure you understand the terms to help settle your claim fairly.

> ***TIP***: *Do not rely on your insurance claims adjuster to set values RCV, ACV or depreciation for your real or personal property. Educate yourself or find qualified professionals to protect your interests. It will save you time and will be money well spent.*

The easy explanation between RCV and ACV is the difference between "new" and "used". **Replacement cost** is the item's ***current price, new***. "What will it cost when I replace it?" **Actual cash** is the item's ***used price, old***. "How much money would I have gotten since I used it for five years?"

Replacement cost, by definition, is usually a greater dollar amount or value than **actual cash**. Whether RCV or ACV applies, the applicable cost is based on replacing the lost or damaged building material or personal property item with an exact replacement, or a building material or personal property item that is equal to the original. If the building material or personal property item is no longer available, the replacement may possibly be better than the original.

Replacement Cost Value (RCV) is the maximum amount your insurance company will pay you for damage to covered property ***without a deduction for depreciation***. The RCV payment is based on the ***current cost*** to replace your property with new, identical or comparable property. **Example**: Five years ago you paid $100, plus sales tax, for an item. The item is no longer available, but a comparable item currently costs $125. With RCV coverage, the maximum amount your insurance company will pay you for the item is $125, plus sales tax.

Actual Cash Value (ACV) is the amount your insurance company will pay you for damage to covered property ***with a deduction for depreciation***. ACV is the replacement cost of a new item less depreciation. **Example**: Five years ago you paid $100, plus sales tax, for an item. Since ACV is the current replacement cost less depreciation, you must consider "wear and tear", if any. If the item had a reasonable life expectancy of ten years, and you used it for five years, the item possibly could have depleted 50% of its value. The item, or a comparable equivalent if the item is no longer available, currently costs $125. With ACV coverage, the maximum amount your insurer will pay you for the item is $62.50, plus sales tax (current replacement cost, $125, plus sales tax, less 50% depreciation).

> ***TIP:*** *Although time consuming, negotiate ACV and depreciation on an item by item basis to reflect your specific usage and the real "wear and tear" on the item. Items with no wear and tear may have 100% of their value.*

Depreciation is defined as the loss in value from all causes, including age, and wear and tear. Although insurers generally rely on "in-house" computer generated or the IRS depreciation schedule, depreciation should always be *negotiated* with your adjuster. **Example**: You own two identical sofas. One sofa is in your "sitting" room and has never been used. The other sofa is located in the family room and has been used by your three children since you purchased it. Depreciation will be different for each sofa. NEGOTIATE ANY DEPRECIATION!

Some items, including antiques, art work, collectibles and other specialty items do **NOT** depreciate. In these instances, RCV and ACV may be equal, and often increase in value since acquisition. You may need your own qualified professional – not your claims adjuster or the adjuster's computer – to establish your true values.

Information provided by CARe, Community Assisting Recovery, Inc., a nationally recognized, volunteer-based,
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