

HOW MUCH INSURANCE?

Determining the limit of insurance is confusing. Perhaps the following information will help. Property insurance requires that you insure the **Replacement Cost** of the building itself. The value of the land, site improvements and underground structures can be excluded from this value.

Replacement Cost **is** simply the cost to repair or replace the damaged property.

Replacement Cost **is not**:

Market Value	Sales value of the building and land
Book Value	Value determined by applying acceptable accounting or IRS depreciation schedules to the cost of the building, plus the land cost
Tax Valuation	Tax assessors estimate of the market value
Actual Cash Value	Replacement Cost less actual depreciation

While Replacement Cost value is the appropriate insurance limit, the mortgage company or financing institution usually requires that the insurance limit be sufficient to cover the unpaid loan balance.

One method of determining the Replacement Cost value is by identifying newly constructed homes in your area. When you find a home of similar construction and quality ask the salesman 1) the cost, 2) the square footage and 3) the cost of the lot. Determine the square foot cost to replace the structure and apply that cost to your home's square footage.

Example:

New home cost: \$300,000
Lot cost: \$50,000
Square foot: 2,500
Cost/SF \$100

Your home SF 2,650
Replacement Cost \$265,000

Insurance companies often use estimating programs to determine the amount of insurance. We have not found those to be particularly accurate.