ACTUAL CASH VALUE or REPLACEMENT COST?

Sometimes insurance policies pay the Actual Cash Value (ACV) of the damaged property, while at other times they pay the Replacement Cost. But what does that mean?

Let’s start with **Replacement Cost**. Replacement Cost is the price you would pay to buy something new. It is not affected by the age or condition of the property.

For example, if you put a new roof on your house, you have not changed the Replacement Cost. A new house would have a new roof anyway. But, if you put a steel roof on when you had a shingle roof before, that would increase the Replacement Cost, because the steel roof costs more.

**Actual Cash Value** is defined simply as Replacement Cost less depreciation. In other words, it is the cost adjusted for age and condition. Back to our example, if you replace your roof, you have not changed the Replacement Cost, but you have increased the ACV. A house with a new roof has a higher ACV than the same house with an old roof.

You have to rebuild your home to get paid the Replacement Cost. The insurance company

will pay you the ACV up front, but they won’t pay the rest until you have spent that money rebuilding. The same goes for TVs and other personal property. They will pay you for the old one, but they won’t pay for a new one until you have bought it.

**Market Value** is not quite the same as ACV, but it is close. Market Value takes into account the location of the property. Two identical houses in different parts of town would probably have different Market Values, but their ACVs would be the same. Although they are different, the two terms are sometimes used interchangeably.

**Repair Cost** is another term used occasionally. This means you have ACV for a total loss, but Replacement Cost for partial losses. This is useful when you would not rebuild your home, but would rather just buy another house.