

Personal Lines

# Understanding your home's replacement cost

Here's a statistic that may surprise you: **over half of homes in the US are underinsured\***. This is largely because home insurance policies are often believed to provide coverage based on a home's market value, as opposed to its replacement cost. Understanding the difference between these two concepts is a key factor in making sure your coverage is up to the high standards of your home.

Replacement cost is essentially the amount it would take to rebuild your home from scratch. This figure

includes factors like similar materials and the same degree of craftsmanship. But there are non-material costs to consider as well, such as permits, fees, debris removal, contractor labor, overhead and profit. As a result, a home's replacement cost often (and sometimes greatly) exceeds its market value.

By making sure your home is insured for its replacement cost, you will be getting the coverage you truly need should ever suffer a total loss.

\*Marshall & Swift/Boeckh

## Features to consider when calculating replacement cost:

Exterior features like porches, decks, and breezeways can affect a home's replacement cost.

Roofing material costs vary greatly depending on shingle style and roof style.

Heating and cooling systems can have a big impact on the cost to rebuild a home.

Removing the debris after a loss adds costs not included in new-home construction.

The quality of kitchen and bath materials could be vastly different from one house to the next.

The style of garages can vary from house to house.

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## More about replacement cost and the home evaluation process

### Q. Why is the assessed value or appraisal value of my home different than the replacement cost?

**A.** The assessed value for property tax purposes is an estimated amount by your city or town based on your home's market value. The appraisal value is the bank's estimate of how much the home is worth for making mortgage decisions. These methods of valuation do not account for the cost to replace your house after a loss, such as a fire. Our policy offers replacement cost, not assessed or appraised value.

### Q. Why do replacement cost estimates vary among insurance companies?

**A.** There are many factors that could cause a difference in replacement cost estimate from one carrier to another. Here are a few of those factors:

- A carrier may be using different replacement cost estimating tools.
- The makers of these tools frequently implement updates.
- The Hanover considers reconstruction cost, which is the cost to rebuild a house after a loss. Reconstruction cost is generally more expensive than building a new home because it involves the removal of damaged materials and the need to work around existing landscaping and power lines.

### Q. Why does The Hanover need to evaluate my home?

**A.** A home evaluation helps document the details of your home—its size, features, systems and materials—so that you have the proper coverage in the event of a loss. This evaluation can identify construction details that are often overlooked, such as porches or sliding glass doors, which can result in an incorrect replacement cost. Some common construction information that a vendor partner can help document includes:

- **Square footage**—Websites like Zillow or tax assessor databases typically post the interior square footage of a home. If there is a loss, the outside walls, siding, brick and full roof still need to be replaced. Exterior square footage establishes a more accurate replacement cost estimate.
- **Wings**—Many homes are not box shaped—they have wings or additions. Those wings are important in the development of an accurate replacement cost calculation.
- **Attached structures**—Decks, porches, and breezeways are often overlooked when using the estimator tool. A home inspector will include these features, as they would need to be replaced in the event of a loss.
- **Garages**—The type of garage, such as attached vs. built-in, can impact the replacement cost of a home.
- **Inside features**—Many homes have custom features and upgrades inside the home (i.e. baths and kitchens) that are often not captured in a replacement cost tool.
- **High-value homes**—These homes typically have additional features such as wainscoting, tray ceilings, built-ins, and upgraded materials that may be missed during an over-the-phone replacement cost estimate conversation.

### Q. How will I be notified if The Hanover plans to evaluate my home?

**A.** We have a multi-touchpoint process for keeping you and your agent informed about home evaluations. First, we email your agent, notifying them of any scheduled evaluations. Next, you will receive a postcard, advising whether we'll need to conduct an exterior-only or interior and exterior evaluation. Our vendor partner will call you to schedule an appointment if an interior evaluation is required. Finally, we will send your agent a detailed summary of our findings during the evaluation and outline clear instructions for next steps.

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