



Understanding depreciation

Your property and most of its contents, such as your laptop computer, your furniture and even your roof, may lose value over time due to factors such as age, wear and tear, and obsolescence. This loss in value is commonly known as depreciation.

Under most insurance policies, claim reimbursement begins with an up-front payment for the actual cash value of your damage, or the value of the damaged or destroyed item(s) at the time of the loss.

If you have replacement cost coverage included on your policy, you may be able to receive additional money to cover the depreciation of these items. If this is the case, reimbursement may involve two or more payments – one for your initial payment based on the actual cash value of your items and then additional payment(s) once you repair and/or replace the damaged or destroyed items and provide your insurance with documentation.

Here's more information on how Insurance Companies calculate depreciation and determine whether or not you are entitled to any additional payment(s).

Calculating depreciation

Generally, depreciation is calculated by evaluating an item's replacement cost value (i.e., the current cost of repairing the item or replacing it with a similar one) and its life expectancy (i.e., the item's average expected lifespan).

For example, let's say your laptop was destroyed in a fire. You bought the laptop four years ago and it was in good condition before the fire. A similar laptop is sold in stores today for \$1,000 (the replacement cost value). This laptop has a life expectancy of 5 years, meaning it loses 20% of its value each year. Because your laptop was two years old, it had lost 40% of its value before being destroyed by the fire. Therefore, the actual cash value (i.e., the value at the time of the loss) of your laptop is \$600.

Here is the calculation:

Cost of a new laptop today		Value of your laptop
\$1,000	40% depreciation	\$600
(replacement cost value)	or \$400 (2 years x 20% per year)	(actual cash value)

This calculation technique also applies to most of the structural components of your dwelling or building that wear out over time, such as the roof. If your dwelling has a 25-year composition shingle roof, it would depreciate at 4% a year under normal conditions. If the roof is 10 years old at the time of your loss and

it requires replacement, insurance would subtract 40% depreciation (10 years x 4% a year) from your replacement cost estimate to determine the actual cash value of your roof.

Please keep in mind that the condition of an item may also factor into the depreciation calculation.

Understanding your Insurance estimate

The estimate provided by your Insurance adjuster outlines your initial claim payment (noted as "Net Claim") based on the actual cash value of your property, less your deductible.

If you have replacement cost coverage, you may also see an amount for "Recoverable Depreciation." This is the total amount of depreciation shown on your estimate based on the age and condition of your damaged item(s). In our example referencing your laptop, the recoverable depreciation is \$400.

Replacement cost value	\$1,000
Less depreciation	(400)
Actual cash value	\$600
Less deductible	(500)
Net claim	\$100
Total recoverable depreciation	\$400
Net claim if depreciation is recovered	\$500

Submitting a request for recoverable depreciation

If you have replacement cost coverage, here are the next steps you should take:

- Repair or replace the lost or damaged item(s)
- Save all invoices, signed contracts, receipts and/or canceled checks associated with the repair or replacement of your property; and submit them to your claim professional
 - Specify in writing at the top of each receipt or invoice which items were replaced and/or what work was completed
 - Provide either the original documents or legible copies to your claim professional, and remember to keep copies for your files
 - Include your claim number on all correspondence
- Once your request for reimbursement is received, your claim professional will contact you to discuss any additional payment(s)
- Your potential reimbursement is governed by the replacement cost. Please keep in mind that when repairing or replacing an item, you can only recover the amount you actually spend. For instance, in our earlier example we determined the replacement cost value of your laptop was \$1,000. If you purchase a replacement laptop for \$900 and submit a request for the recoverable depreciation, Your Insurance Company will reimburse you \$300 – the difference between the actual cash value of your previous laptop (\$600) and the cost of your new one (\$900). If you find that you cannot repair or replace damaged or destroyed item(s) for the replacement cost established on your estimate, please contact your claim professional before repairing or replacing the item(s)

Frequently asked questions

Q: How do I know if I have replacement cost coverage?

A: While there are some exceptions, most insurance policies include some replacement cost coverage. Your insurance claim professional will go over your coverage with you upon inspecting your property.

Q: How does my insurance determine the life expectancy of my property?

A: They use estimating software that relies on data from many reputable sources, including guides published by the U.S. government and the National Association of Home Builders. The information in these guides is widely used in the industry and is composed of relevant data from manufacturers, retailers, installers, contractors, insurance companies, home inspectors, etc.

Q: Are there deadlines I must meet to receive the recoverable depreciation?

A: Yes. Please review your policy for specific details. In most instances, you should notify your claim professional of your intent to recover this depreciation within 180 days of the date of loss.

Q: What if I decide to buy a more expensive item to replace the one I lost?

A: You may purchase a more expensive item to replace the one you lost, but insurance can only reimburse you up to the replacement cost value. In the previous example, we determined the actual cash value of your 13-inch laptop was \$600, and the cost of a similar laptop is \$1,000. If you purchase a 15-inch laptop for \$1,500 and submit a request for recoverable depreciation, you will be reimbursed \$400 – the recoverable depreciation on your original laptop.

Q: What if I decide not to repair or replace my damaged items?

A: This decision is entirely yours. If you do not repair or replace the damaged items, you may not be able to submit a request for additional payment(s).

→ If you have any additional questions regarding depreciation, please contact your Insurance claim professional.

For more information about the property claim process, including a guide to understanding your estimate, visit www.pledgegc.com.



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