



Replacement Cost Value or Actual Cash Value - Which Option Suits Your Needs?

Homeowner's insurance policyholders usually have the option to insure to actual cash value (ACV) or replacement cost value (RCV). To make the best decision, the individual first needs to gain a clear understanding of the difference between the two policy options.

In a nutshell, the difference between RCV and ACV is wear and tear; otherwise known as depreciation. ACV considers that the lost property has most likely depreciated over time, and endeavors to insert depreciation into the equation. For instance, suppose the ruined property was a sofa that would cost \$700 to replace. Even though the sofa was in good shape for a 10-year-old piece of furniture, it was definitely not brand new. In ten years time, some wear and tear inevitably occurred. With ACV, the insurance company may determine that \$30 of depreciation occurred each year since the sofa was purchased. In this case, the sofa would only be valued at \$400 at the time of the loss. The company would pay you \$400 minus any applicable deductible. In a sense, you would be paying an increased deductible in the form of the \$300 of depreciation. To summarize ACV, the insured would pay the difference between the replacement cost, the amount the old sofa depreciated by, and any deductible. In essence, the policyholder is "co-insuring" that amount.

On the other hand, RCV is simply the cost of replacing the lost property with either an identical or similar piece of property. Using our sofa example, if it costs \$700 to

replace the sofa, the insurance company will pay you the \$700 minus any applicable deductible. Even though the ruined sofa was showing its age, and could never be sold for \$700, RCV allows the policyholder to recoup the value of a brand new replacement sofa.

Which option is best? This question cuts to the core of what insurance is all about - making the insured whole again. In some cases, ACV falls short. Conversely, RCV can create an overly beneficial situation for the insured. Not including sentimental value, if the sofa is old and dilapidated, but the insurance covers RCV, it is obvious that the policyholder will benefit greatly by receiving enough funds to purchase a brand new sofa to replace the old one.

An old house that has been severely damaged by a fire may provide a more dramatic example of RCV. At the time of the fire, the house may have only been worth \$200,000, because the components of the house (such as roof, flooring, HVAC etc.) were approaching the end of their life span. In this case, the house would increase in value as the old worn-out components were replaced with brand new ones. So the homeowner would be better off in terms of the value of their home, than if the fire had never occurred at all.

Some insurers stipulate that all repairs must be completed, in order to obtain the full replacement cost of the

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Welcome to the Jackson & Jackson Insurance Agents and Brokers Newsletter!

It is with great satisfaction that we bring this newsletter to you. In this issue and in coming months, we will discuss pertinent insurance topics which may affect you and your family. We sincerely hope that you will find this newsletter informative and please do not hesitate to contact us should you have any questions or needs.



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Insurance Briefs



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Finding the Best Home Contractor for the Job

Let's say you're about to take on a house project, whether it's a major kitchen renovation or a simple painting job, and you decide to hire a contractor. So, you flip through the phone book and call the first number you see listed under "Kitchen Remodeling" or "Painters." Not so fast.

Many homeowners don't realize that they are taking a huge risk when they hire just any contractor off the street. If you don't do your homework, you could be exposing yourself to massive amounts of liability. What if a painter falls off his ladder and badly injures his back while painting your living room? What if a kitchen contractor hits a pipe and floods your home? Who will cover the lofty expenses associated with these types of accidents?

The thought of such a home improvement catastrophe is enough to send chills down any homeowner's spine. This is why it's so important to hire only licensed, insured, highly experienced contractors to work on your house project—no matter how big or small the job may be.

Here are a few rules of thumb for hiring a reliable contractor and limiting your liability:

Ask for recommendations

One of the best ways to find a dependable contractor is simply to ask your friends, family members, co-workers and neighbors. Ask everyone you know and trust if they can suggest a reputable contractor who did exceptional work for them. More than likely, if a friend was happy with a contractor, you will be too.

Avoid solicitors

Steer clear of contractors who go door-to-door or make cold calls in search of work. The best, most reliable contractors don't have to resort to such solicitations.

Don't fall for "limited time" offers

If a contractor quotes you a "limited time" project price that will increase if you don't hire him immediately, run like the wind. This can be a sign that the contractor is dishonest or illegitimate.

Get it in writing

Don't settle for verbal agreements. Request a written estimate that includes a detailed breakdown of the project costs, including materials and labor fees.

Verify, verify, verify

Before you hire any contractor, make sure that they are licensed, bonded and insured—and don't just take their word for it. Verify all of this by asking for certificates of insurance for workers' compensation as well as info on their general liability policies. If the contractor working on your home plans to use subcontractors, be sure to ask for the certificates for those subcontractors as well.

Read the fine print

Before the contractor begins work on your house project, request a copy of the proposed contract. Read all of the fine print and make sure all the terms are fair and reasonable. The contract should clearly establish an independent contractor relationship. It should also include a "hold harmless clause" in your favor, especially if the contractor is doing major work that involves heavy equipment (such as installing a swimming pool or adding a room to your house.) A hold harmless clause ensures that the contractor will cover any expenses associated with members of the public who are injured or whose property is damaged during the project.

Check with the Better Business Bureau

If you're still not sure, contact the Better Business Bureau for more information. They can tell you if any consumers have filed complaints against the contractor. Visit the bureau's website at www.bbb.org.



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property. They may decide to pay the ACV up front, and have the rest of the payment (the difference between RCV and ACV) contingent upon all repair work being completed. This keeps the insured from pocketing the money and gaining financially from the loss.

There is at least one caveat regarding the benefits of RCV, however. Since the real estate market can fluctuate quite a bit, sometimes replacement cost value turns out

to be less than ACV. When the housing market is strong, and home prices are high, the actual cash value can be higher than the cost of replacing a home with one that has similar features and qualities. Therefore, the additional cost of purchasing RCV may be a bad decision. As always, consult with an agent to see which option is right for you.

Men vs. Women Drivers: Does Gender Really Matter on the Road?

For years, insurance companies have regularly charged female drivers less for auto insurance coverage than males. Insurance companies claim it's because women drivers statistically have fewer car crashes. However, no studies have actually proven that there is a difference between men and women's driving abilities.

Looking at the stats

Over the past ten years or so, male fatalities have outnumbered female fatalities 2-to-1 in car accidents, according to the National Highway Traffic Safety Administration. Men also have a higher rate of collisions that result in just property damage—also a 2-to-1 ratio.

According to the American Insurance Association, men are involved in 50 percent more fatal crashes per 100 million miles driven than females. This divergence is most prominent in drivers in their late teens and early to mid-20's.

Examining the male crash phenomena

No one can pinpoint exactly why men have more car crashes than women. Many researchers argue nature versus nurture theories. Some researchers blame natural male biochemicals—one study claims that high testosterone levels in men causes them to take more risks behind the wheel. On the other hand, some researchers say that men are products of their culture. These experts say society has taught males to act more competitively in general, which makes them more aggressive drivers on the road. Other studies point out that women are better multi-taskers, which makes them better drivers.

However, many people simply don't buy into any of these studies. Skeptics say a person's gender simply cannot



predict whether or not they are a safe driver. The National Organization for Women's Insurance Project points out that men simply have more crashes than women because they drive more miles each year. Because men are on the road more, they expose themselves to a more risk.

The gap narrows

Recent statistics show that the gap is narrowing between men and women crashes. Between 1975 and 2003, female fatalities in car accidents increased 14 percent, while male fatalities dropped by 11 percent.

Some experts say this is simply because women are on the road more these days. On top of that, an increasing number of women are becoming more aggressive on the road. If this trend continues, experts say insurance companies may soon stop taking gender into account as they calculate drivers' insurance premiums.

A few states lead the way

Despite the latest research, insurance companies in most states continue to use gender as a factor in calculating premiums. Of course, insurers also take other things into account, including annual mileage, the type of car, the person's previous driving record and even their Zip code (whether they live in the city, the suburbs or a rural area).

However, a handful of states, including California, Connecticut, North Carolina and Pennsylvania, no longer allow insurance companies to use gender as a factor to assess risk and calculate premiums.

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• Types of credit established (approximately 10%)

Types of credit established are the various types of credit accounts including credit cards, retail store accounts, installment loans and mortgages.

In summary, insurers rely on factors that show long-term stability. So, by demonstrating responsible use of credit and keeping your balances low, you should be able to improve your insurance risk score. A lower insurance risk score could translate into lower insurance premiums if you've been impacted by a negative credit history in the past.

Yet Another Reason to Improve Your Credit - Lower Insurance Rates

Your credit rating can affect a lot more than you may think. Almost all insurance companies factor in credit ratings to set rates for new and existing auto insurance customers. Yet, blemished credit doesn't necessarily translate into higher insurance premium rates. Instead, it is the overall insurance risk score that can cause a rise in your rates.

Insurance risk scores are similar to those used by lenders to determine whether or not to approve a loan or line of credit because both look at your credit information. But credit risk models are formulated to predict the likelihood of loan default. Insurance risk models, by contrast, are built to predict the likely loss ratio of any particular individual. In other words, whether you will result in more or fewer losses than average to the insurer. The higher your insurance risk score, the less likely you are to file a claim.

Following is the information many insurance companies use to formulate a risk score and how each is weighted:

- **Past payment history (approximately 35%)**

A past payment history is determined by: how you've paid your credit bills in the past; if your bills have been paid on time; items in collection status; the number of adverse public records (bankruptcy, wage attachments, liens); and the number and length of delinquencies or items in collection.

- **Credit owed (approximately 30%)**

Credit owed is how many accounts, what kind of accounts, and how close you are to your credit limits.

- **Length of time credit has been established (approximately 15%)**

Length of time credit established is how long you have had your credit accounts and how long you have had other specific accounts.

- **New credit (approximately 10%)**

New credit is the number and proportion of recently opened accounts versus already established accounts; the number of credit inquiries; and the reestablishment of credit history after payment problems.



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