

Understanding Insurance Paperwork & Language

Example of a property claim:



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MELVIN_BODINE

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DESCRIPTION	QNTY	UNIT COST	RCV	DEPREC.	ACV
DWELLING					
1. Remove Tear off, haul and dispose of comp. shingles - 3 tab	15.50 SQ	46.47	720.29	(0.00)	720.29
2. 3 tab - 25 yr. - composition shingle roofing - incl. felt	17.33 SQ	171.36	2,969.67	(693.96)	2,275.71
3. Drip edge/gutter apron	242.00 LF	1.59	384.78	(54.62)	330.16
4a. Remove Chimney flashing - average (32" x 36")	1.00 EA	15.13	15.13	(0.00)	15.13
4b. Chimney flashing - average (32" x 36")	1.00 EA	218.80	218.80	(13.64)	205.16
5. Flashing - pipe jack - lead	2.00 EA	56.75	113.50	(19.57)	93.93
6. Flashing - pipe jack	1.00 EA	22.20	22.20	(1.77)	20.43
7. Digital satellite system - Detach & reset	1.00 EA	26.16	26.16	(0.00)	26.16
8. Additional charge for high roof (2 stories or greater)	15.50 SQ	9.89	153.30	(0.00)	153.30
9. Remove Additional charge for steep roof greater than 12/12 slope	6.67 SQ	22.01	146.81	(0.00)	146.81
10. Additional charge for steep roof greater than 12/12 slope	6.67 SQ	44.78	298.68	(0.00)	298.68
11. Step flashing	47.00 LF	5.55	260.85	(17.19)	243.66
12a. Remove Counterflashing	22.00 LF	0.48	10.56	(0.00)	10.56
12b. Counterflashing	22.00 LF	5.17	113.74	(6.60)	107.14
13a. Remove Saddle or cricket - up to 25 SF	3.00 EA	20.18	60.54	(0.00)	60.54
13b. Saddle or cricket - up to 25 SF	3.00 EA	87.90	263.70	(4.59)	259.11
14. Remove Tear off, haul and dispose of comp. shingles - 3 tab	1.33 SQ	46.47	61.81	(0.00)	61.81
Dormers are faced with shingles as well					
15. 3 tab - 25 yr. - composition shingle roofing - incl. felt	1.33 SQ	171.36	227.91	(53.26)	174.65
Dormers					
Dwelling Totals:			6,068.43	865.20	5,203.23
Total: MELVIN_BODINE			6,068.43	865.20	5,203.23

CONTINUED - Exterior

DESCRIPTION	QNTY	UNIT	COST	RCV	DEPREC.	ACV
16a. Remove Gutter / downspout - aluminum - up to 5"	153.00	LF	0.40	61.20	(0.00)	61.20
16b. Gutter / downspout - aluminum - up to 5"	153.00	LF	4.14	633.42	(127.30)	506.12
All gutters and Downspouts						
17a. Remove Fascia - metal - 4"	23.00	LF	0.27	6.21	(0.00)	6.21
17b. Fascia - metal - 4"	23.00	LF	3.29	75.67	(4.42)	71.25
West side						
18a. Remove Fascia - metal - 8"	84.00	LF	0.27	22.68	(0.00)	22.68
18b. Fascia - metal - 8"	84.00	LF	3.60	302.40	(23.18)	279.22
Fascia on North and South sides						
19a. Remove Window screen, 10 - 16 SF	5.00	EA	3.04	15.20	(0.00)	15.20
19b. Window screen, 10 - 16 SF	5.00	EA	27.77	138.85	(41.17)	97.68
One on East side; 3 on North side; and one on West side						
20a. Remove Wrap wood window frame & trim with aluminum sheet	4.00	EA	26.67	106.68	(0.00)	106.68
20b. Wrap wood window frame & trim with aluminum sheet	4.00	EA	121.03	484.12	(43.29)	440.83
1 on East side; 2 on North side; 1 on West side						
21. Comb and straighten a/c condenser fins - with trip charge	1.00	EA	146.00	146.00	(0.00)	146.00
West side						
22. Dumpster load - Approx. 12 yards, 1-3 tons of debris	1.00	EA	330.00	330.00	(0.00)	330.00
To be filled with fascia, gutters, downspouts, wraps, and screens.						
Dwelling Totals:				2,322.43	239.36	2,083.07
Totals: Exterior				2,322.43	239.36	2,083.07
Area Dwelling Total:				8,390.86	1,104.56	7,286.30
Line Item Totals: MELVIN_BODINE				8,390.86	1,104.56	7,286.30

Summary for Dwelling

Line Item Total						8,390.86
Material Sales Tax	@	8.491%	x	3,043.37		258.41
						8,649.27
Overhead	@	10.0%	x	8,649.27		864.93
Profit	@	10.0%	x	8,649.27		864.93
Replacement Cost Value						\$10,379.13
Less Depreciation						(1,198.35)
Actual Cash Value						\$9,180.78
Less Deductible						(1,000.00)
Net Claim						\$8,180.78
Total Recoverable Depreciation						1,198.35
Net Claim if Depreciation is Recovered						\$9,379.13

Insurance Terms & Definitions

If you're sitting there with a furrowed brow, feeling like you're looking at Chinese hieroglyphics, don't worry.

ACV, depreciation, & RCV

ACV stands for **actual cash value**. Actual cash value is the the fair market value of an item today in its current condition.

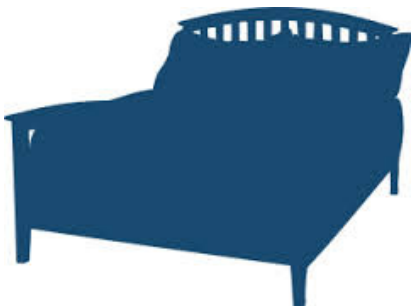
Depreciation describes the reduction in value of an item as a result of wear and tear, age, or obsolescence. Items continue to depreciate until the end of their useful life. Depreciation lowers the value of an item over time.

RCV stands for **replacement cost value**. This is the amount of money that it would cost to replace the item today with an item of like kind and quality, regardless of its current age or condition.

Actual Cash Value + Depreciation = Replacement Cost Value

Example 1: Let's say your dog gets really bored one day and tears up your nice pillow top mattress that you have owned for four years. Originally when you purchased the mattress four years ago, it cost \$2,000. If the average useful life of a mattress is ten years, then the mattress has **depreciated** by 40%. Forty percent of the original value of the mattress is \$800, so the mattress has *decreased* in value by \$800. This means the **actual cash value** or what the mattress is worth today is \$1,200. In order to *replace* the mattress today with a new mattress, it would still cost \$2,000. Therefore, \$2,000 is the **replacement cost value** of the mattress.

$$\text{ACV } \$1,200 + \text{depreciation } \$800 = \text{RCV } \$2,000$$



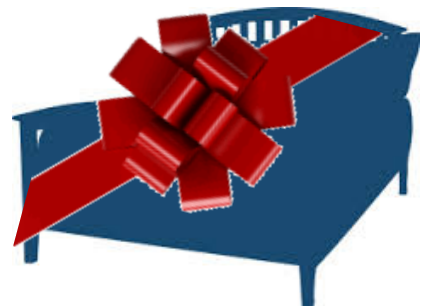
\$2,000

cost 4 years ago



\$1,200

actual cash value
present day



\$2,000

present day
replacement cost

Example 2: A hail storm damages a homeowner's roof. The roof was a 30 year architectural shingle (has a useful life of 30 years), and was ten years old, meaning it has **depreciated** by 33% ($10/30 = 33\%$). If the \$10,000 roof has depreciated by 33%, or \$3300, that means the current **actual cash value** of the roof is \$6700. It is going to cost \$10,000 to replace the roof today, meaning the **replacement cost value** is \$10,000.

$$\text{ACV } \$6700 + \text{depreciation } \$3300 = \text{RCV } \$10,000$$

The vast majority of homeowners are going to have **replacement cost policies** on their homes, meaning regardless of how depreciated in value their roof may be, the insurance company will pay for whatever it costs to replace the roof in today's fair market. Very rarely you may run into a homeowner with an **ACV policy** on their property, usually only on a rental or a very old home in poor condition. These policies only pay the actual cash value on items that are damaged, regardless of what it might cost in today's market. In Example 2 above, an ACV policy would only pay the \$6700, not the full \$10,000. ACV policies have *non-recoverable* depreciation.

How claims are paid:

In an insurance claim, the payments from the insurance company are almost always divided into two checks: the **ACV** and the **depreciation**. The ACV check is issued first, and the depreciation amount is held back until the work is completed. Once the depreciation is issued, the full replacement cost value has been paid.

Deductibles. Every insurance policy has a deductible. A deductible is the fixed amount a homeowner is financially responsible for in an insurance claim. Any expense above and beyond the fixed deductible amount is covered by the insurance company. A deductible is comparable to a co-pay at a doctor's office. Medication for a patient might be \$300, but the patient might have a co-pay of \$50, meaning the patient pays just the \$50 and the other \$250 is covered.

Payment in an insurance claim works like this: the initial ACV payment is issued, "less the deductible." This means that the actual cash value was paid, minus the amount of the deductible, because the homeowner is responsible to pay that part. Sometimes homeowners get confused because they read "less deductible" and think their deductible has "already been taken out." That's not how it works. The deductible is a part of the estimate as a whole: the **ACV check + depreciation check + deductible = replacement cost value** (the grand total). The insurance company owes for everything above and beyond the amount of the deductible, so the homeowner pays the first \$500 or \$1,000 (or whatever their deductible amount is), and the insurance company pays the rest.

$$\text{ACV} + \text{deductible} + \text{depreciation} = \text{RCV}$$

Example 1: A homeowner has a \$10,000 claim, meaning the replacement cost value, or the grand total of damages, is \$10,000. This homeowner has a \$1,000 deductible on their policy. The first check issued is the ACV check. On the paperwork, it will say something like *actual cash value: \$7,000, less deductible \$1,000*, so the ACV check will be in the amount of \$6,000. Then it will say *recoverable depreciation: \$3,000*.

So: the ACV check **\$6,000** + deductible **\$1,000** + depreciation check **\$3,000** = the RCV of **\$10,000**.

Example 2: Take a look at the insurance paperwork example we used earlier. In this particular claim, the RCV is \$10,379.13. The insurance company held back \$1,198.35 in depreciation. The actual cash value (ACV) is \$9,180.78, less the deductible of \$1,000. Therefore the initial ACV payment is \$8,180.78.

So: the ACV check **\$8,180.78** + deductible **\$1,000** + depreciation **\$1,198.35** = RCV **\$10,379.13**.

Summary for Dwelling				
Line Item Total				8,390.86
Material Sales Tax	@	8.491% x	3,043.37	258.41
				8,649.27
Overhead	@	10.0% x	8,649.27	864.93
Profit	@	10.0% x	8,649.27	864.93
Replacement Cost Value				\$10,379.13
Less Depreciation				(1,198.35)
Actual Cash Value				\$9,180.78
Less Deductible				(1,000.00)
Net Claim				\$8,180.78
Total Recoverable Depreciation				1,198.35
Net Claim if Depreciation is Recovered				\$9,379.13

Notes:

NON-RECOVERABLE DEPRECIATION: Though a homeowner has a **replacement cost policy**, some policies have items that may have non-recoverable depreciation applied to them. Typically (but not always) awnings and patio covers are affected by non-recoverable depreciation.

On insurance paperwork, this will be indicated by carrots >> or asterisks *, and will also have an amount for “non-recoverable depreciation.” This will affect the total amount of money issued to the homeowner, so be sure to take that into account when determining what the total amount paid will be.

DESCRIPTION	QUANTITY	UNIT COST	RCV	DEPREC.	ACV
Depreciation for siding is based on age and condition at 20yrs old and average depreciation at 2% per year.					
4. R&R Fascia - metal - 4"	30.00 LF	3.35	100.50	(40.20)	60.30
5. R&R Attic vent - gable end - metal - 12" x 18"	1.00 EA	55.83	55.83	(41.36)	14.47
6. R&R Awning - Window/door - Aluminum or steel	12.00 LF	71.58	858.96	<429.48>	429.48
7. R&R Awning side panels - Alum. /steel (PER SET)	2.00 EA	59.80	119.60	<59.80>	59.80

Example: a claim may have an RCV of \$10,000 and a deductible of \$1,000. The insurance company holds back \$3,000 in depreciation, issuing the initial check for \$6,000 (ACV \$7,000 less deductible \$1,000). On the paperwork, there is an awning with an RCV of \$500. It has been depreciated by 50%, so \$250 is being held as “non-recoverable depreciation.”

Though the replacement cost value remains \$500, the depreciation on the awning cannot be recovered. This means the total claim will actually end up being \$9,750 instead of \$10,000. The paperwork still says the RCV is \$10,000 however, because theoretically to replace all the damaged items, it would indeed cost \$10,000. The insurance company just does not *owe* the depreciation on the awnings.

PWI: Occasionally you may see a line item listed as PWI, which stands for **paid when incurred**. What this means is that the insurance company is willing to pay for the line item, but only after it has been “incurred,” or fulfilled (essentially another form of depreciation). Typically this is on labor items, such as the removal of the previous layer of shingles on a roof for example. What PWI would mean on “shingle removal” is that they are willing to pay for the labor to remove the old shingles, as long as the old shingles were actually removed prior to the new roof being put on.

DESCRIPTION	QUANTITY	UNIT COST	RCV	DEPREC.	PWI	ACV
Remove Tear off, haul and dispose of comp. shingles - 3 tab	17.31 SQ	46.48	804.57		804.57	0.00
3 tab - 25 yr. - (hvy.wt) comp. shingle rfg - incl. felt	19.33 SQ	185.57	3,587.07	(1,677.40)		1,909.67
R&R Drip edge	244.82 LF	1.54	377.02		377.02	0.00
Detach & Reset Roof mount power attic vent	1.00 EA	79.16	79.16		79.16	0.00

OTHER STRUCTURES. Some insurance claims may have a separate total for “other structures” such as a detached garage or shed. Be sure to add these two totals together to read the proper grand total of the claim as a whole.

Summary For Dwelling

Replacement Cost Value	Less Recoverable Depreciation	Less Non Recoverable Depreciation	Actual Cash Value (ACV)
\$7,827.50	(\$3,114.07)		\$4,713.43
Less Deductible			(\$500.00)
Total ACV Settlement			\$4,213.43

Summary For Shed

Replacement Cost Value	Less Recoverable Depreciation	Less Non Recoverable Depreciation	Actual Cash Value (ACV)
\$564.63	(\$97.87)		\$466.76
Total ACV Settlement			\$466.76
Total Outstanding ACV Settlement (All Coverages)			\$4,680.19

In the above example, the grand total of the entire claim comes to **\$8392.13**, because the RCV for the house (“dwelling”) is \$7827.50 plus the RCV for the separate structure (the shed) comes to \$564.63. Sometimes the separate structures are listed immediately following the main structure like in the above example, but sometimes it is on a separate page entirely and is easy to overlook. Thoroughly examine the insurance paperwork to determine the true RCV of the claim so you do not accidentally leave off hundreds or thousands of dollars by mistake.

Notes: