United Policyholders
Empowering the Insured

Depreciation Basics

Here are three terms that will help you understand how depreciation works in connection with insurance claims. Your insurer may depreciate both your "stuff" and your dwelling.

Depreciation: The loss in value from all causes, including age, wear and tear.

Replacement cost: The "new" price of what it would cost to actually repair or replace a damaged or destroyed item. Most policies these days are "REPLACEMENT COST" ("RC") policies because they're supposed to cover the cost of replacing what you have lost. To collect the full amount you're entitled to under an RC policy, you have to actually replace the items and send the receipts to the insurer with a demand for the balance they owe you. Insurers don't volunteer to pay – you insist.

ACV (Actual Cash Value): The "old" price of an item as it was pre-loss, sometimes explained as the price a willing buyer would have paid you immediately before the event that caused your loss. Some policies limit payouts to "ACV" and that's all they pay. If you've got an ACV policy, you'll probably need to argue for less depreciation to be taken on major items, but once the check is cut, that's all you will get, regardless of what it costs to actually replace what you had.

THE DEPRECIATION PROCESS

The "normal" contents claim process is: the claimant (with help from an adjuster) prepares a detailed list of every single damaged or destroyed item noting approximate age, value, and replacement cost. The adjuster/insurer depreciates certain items to account for their age and wear and tear, and cuts a check for what's called "ACTUAL CASH VALUE" ("ACV") of the entire inventory. (Often the depreciation that the adjuster/insurer applies to your item is excessive). Once you replace items your insurer generally owes you the balance between the ACV and what it actually cost you to replace or repair (subject always to your individual policy's wording and limits.)

If you replace everything you lost and submit receipts to your insurer with a demand for the balance due, you'll be fully reimbursed and the excessive depreciation won't matter. But most people can't and don't replace everything they lost, so depreciation does matter.

The most important thing to understand about depreciation is that **it is subjective and you can refuse to accept excessive depreciation.** To recover the full benefits you're entitled to under your policy, negotiation is the name of the game.

FAQs

Q: Why is my insurance adjuster depreciating my contents items when I have a replacement cost policy?

A: Because there is language in your policy that lets them do that. For most items, once you replace and submit proof, they must pay you the difference between the depreciated amount they paid and what you spent.

Q: You mean I have to pay out of pocket before I get reimbursed?

A: That's right.

Q: Why such a complicated process?

A: The process deters fraud and allows your insurer to pay out less than they really owe. Most people don't end up replacing everything lost so it works to the insurer's advantage.

Q: What are the rules for how much and which things get depreciated?

A: Depreciation should be reasonable, not excessive. Depreciation is subjective. The IRS publishes depreciation guides; United Policyholders publishes a depreciation guide, and industry publications offer depreciation guides. The bottom line is you need to resist excessive depreciation by arguing back and providing proof of the value and condition of your lost or damaged items.

Q: Are there laws or regulations that relate to depreciation?

A: This varies state by state. California, for example, has the following law:

Fair Claim Settlement Practices Regulations: §2695.9 (f) When the amount claimed is adjusted because of betterment, depreciation, or salvage, all justification for the adjustment shall be contained in the claim file. Any adjustments shall be discernable, measurable, itemized, and specified as to dollar amount, and shall accurately reflect the value of the betterment, depreciation, or salvage. Any adjustments for betterment or depreciation shall reflect a measurable difference in market value attributable to the condition and age of the property and apply only to property normally subject to repair and replacement during the useful life of the property. The basis for any adjustment shall be fully explained to the claimant in writing.

> (1) Under a policy, subject to California Insurance Code Section 2071, where the insurer is required to pay the expense of repairing, rebuilding or replacing the property destroyed or damaged with other of like kind and quality, the measure of recovery is determined by the actual cash value of the damaged or destroyed property, as set forth in California Insurance Code Section 2051. Except for the intrinsic labor costs that are included in the cost of manufactured materials or goods, the expense of labor necessary to repair, rebuild or replace covered property is not a component of physical depreciation and shall not be subject to depreciation or betterment.

Q: How do I resolve a dispute between me and the adjuster/insurer over depreciation?

A: The same way you resolve any claim-related dispute:

1. Make a specific request for what you feel is a fair resolution and back it up with documentation and your best arguments to support your position.
2. Go up the chain of command at the insurance company, (See UP's tips titled; "Speak UP")
3. File a complaint with your state Insurance Department.
4. If there's enough money at stake, hire professional help. Start at the "Find Help" section of our website for more information.
5. Mediation and/or Litigation.

TIPS AND RESOURCES

Tip #1: Depreciation is negotiable. The lower the value an adjuster puts on your property – the less you will be reimbursed by your insurer. There is no agreed-upon schedule or set standard for how much insurers can depreciate your personal property. Insurance adjusters use their own personal views on the value of items plus guidelines on depreciation provided by their employer. It is hard to pin down an adjuster on how they valued your damaged or destroyed items. But these values impact your pocketbook so they are important to challenge if they are unfairly low.

Tip #2: Age isn't everything. Even if an item was old, it may be in good to excellent condition.

Be prepared to fight to collect the full value of your possessions, particularly major items, and don't forget to submit receipts and collect full value after you replace items. Although this is no "official" depreciation schedule in common use across the United States, there are resources you can consult. United Policyholders offers a Depreciation Guide that gives you a general idea of the useful life of common household items. Remember – it's only a guide. Your items may be more or less valuable depending on their condition. Another resource is a website designed for insurance company use: www.claimspages.com. This site features a depreciation calculator http://www.claimspages.com/tools/depreciation. Again, this is only a tool.

Tip #3: Negotiate ACV deductions on a case-by-case basis to reflect how worn the items really were. The furniture in your guest room should be depreciated less than the furniture in your master bedroom because it was used less and was in better shape. – The Replacement Cost and the Actual Cash Value of some items are the same.

Tip #4: Many items should not be subject to *any* depreciation. Examples are: antiques, fine art and jewelry, computer media (CD's, etc.), software, framing, masonry, concrete, insulation, light fixtures. – Some items depreciate faster than others. Examples: electronics, soft furniture, clothes and shoes depreciate faster than hard furniture, washer/dryers, etc.

Tip #5 If an insurer applies a fixed percentage across all items, challenge them! Since every item is unique, an insurer must apply a percentage of depreciation specific to each item. This is very time-consuming so some adjusters will try to depreciate all items across the board by a set percentage (30-50% is common) You can either negotiate a much lower percentage (3-5%, for example) or insist that items be depreciated individually.

Tip #6: Depreciation should be based upon the "Remaining Life Expectancy" of an item – not necessarily the age of the item. You may have had a guest room in your house with beautiful green shag carpet from 1970. According to the insurer's depreciation schedule, the carpet should have only lasted 5 years. However, in your case, since the room is rarely used, the carpet is in like-new condition. It would be advisable to argue the remaining life expectancy of the carpet is still 5 years and no depreciation should be taken at all. Under the insurer's argument, the carpet wore out 28 years ago and according to their schedule – you would owe them money!

Tip # 7: Don't accept excessive depreciation of items that are missing or totally destroyed where it's hard to determine the remaining life expectancy. There have been many cases where items have been stolen and an insurer applies a large percentage – say 75% depreciation on those items. The insurer should be asked how they arrived at their percentage if they did not see the items. How do they know how much life is left in them? Does the insurer really believe that a thief is going to steal an item that only has 25% of its life left? That does not make sense and the insurer should be challenged on that.