



Why is the contractor's equipment valuation method an important consideration?

The equipment and tools purchased for your business are a big investment. The insurance available to protect that investment is not created equal, and there are many options to consider. One important consideration when purchasing insurance for equipment is *valuation*.

Valuation is the way an insurance company will value the worth of the damaged or stolen equipment. The most common methods of valuation are **Actual Cash Value (ACV)** and **Replacement Cost (RC)**.

Actual Cash Value (ACV) is defined by most insurance companies as - the cost to replace the equipment with another of like kind and quality less the cost of depreciation.

Most contractors' equipment policies are written with **ACV** as the valuation method unless the policy is endorsed otherwise. Typically, equipment is added to the insurance policy when it is new, so it is important to review equipment schedules periodically to be certain values shown on the insurance schedule match the depreciated value as the value will decrease when the item depreciates over time.

Replacement Cost (RC) is the cost to replace the equipment with equipment of like kind and quality at current costs. **RC** does not consider depreciation and ignores factors such as age, condition, maintenance, or obsolescence. For example, an air compressor purchased three years

ago for \$3,000 may have an **ACV** of \$1,000, but it would cost \$2,000 to purchase a comparable unit based on today's market. Thus \$2,000 would be the **RC** and \$1,000 the **ACV**.

If the **RC** is more than the original purchase price, most policies limit the payment amount *if* you decide not to replace or repair the equipment to the *lesser* of the **ACV** or the limit of insurance specified in your policy.

Most insurance companies will not add **RC** to a policy for equipment older than 5-7 years, but for newer equipment **ACV** verses **RC** is an important consideration.

Policy language varies between insurance companies, so partnering with an experienced insurance agency is key to assure proper coverage is in place. For more information on contractor's equipment coverage or to request a quote, please contact us.

CONTACT US
(617) 773-9200

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