

A Roof Over Our Heads



NAME: _____

DATE: _____

If you lost your entire roof in a tornado, how much would you need to pay for a new one? That depends on the kind of insurance policy you have, where you live, the cost of building materials and construction of your roof, and other factors. Understanding factors such as these helps actuaries set premiums for insurance companies.

There are two general types of policies: *replacement cost* (payment based on what it would cost to replace something) and *actual cash value* (payment based on what something is currently worth).

In the examples below, House A and House B have identical roofs and are next door to each other. House A had its roof replaced more recently than House B. Look at the information below and answer the questions.

	House A	House B
Type of Policy	Actual Cash Value	Replacement Cost
Age of Roof	15 years	23 years
Life of Roof	30 years	30 years
Deductible	\$1,000	\$1,000
Yearly Premium	\$500	\$750

Cost of replacing roof with new 30-year shingles is \$5,000 (each).

Questions:

- Which roof is worth more? _____
- How much would you estimate House A's owners received from their insurance company to fix their roof? _____ House B's owners? _____
- Who paid more for their premium? _____ How much more? _____
- Now consider the premium, deductible, and costs to replace the roof. Who paid more to fix their roof? _____ How much more? _____
- In this case, is the higher premium of the Replacement Cost Policy worth it? _____ Why or why not? _____ Will this always be true? _____

Think About It

What factors might affect insurance costs for roof replacement following damage from a tornado?

